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# THE NEW ECONOMY OF CHINA

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# THE NEW ECONOMY OF CHINA

*(Factual Account, Analysis and Interpretation)*

By  
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To

Chou En-lai  
(*Prime Minister of China*)

and

Jawahar Lal Nehru  
(*Prime Minister of India*)

and

The peoples of China and India  
*for the inestimable value and historic importance*  
of the friendship between China and India.

## PREFACE

This book is, as stated on the cover, a factual narrative, an analysis and interpretation of the economy which is being developed in China. Its importance and significance are widely admitted, and there is also a large measure of agreement that, in spite of its limitations and failings, it is a great achievement in the context of existing situation in the world. The book has been written because of the author's belief that the new economy of China needs to be assessed in relation to her history, needs and possibilities and the premises on which its makers are building it are worthy of very serious consideration, even if their validity is not fully accepted. These premises are based upon their Marxian faith but have in practice been used with skill, knowledge and discrimination.

The new economy being 'a democratic dictatorship' has its inherent limiting factors and its political counterpart from the point of view of civil liberties, freedom of press, opinion and association is open to criticism. Efforts are, however, being made to initiate and develop democratic processes within the authoritarian framework; and if world tensions are relaxed, and the People's Republic attains a full sense of security, these processes are likely to be strengthened and re-inforced. China is not only playing an important role in world affairs as an ally of the Soviet Union, but is also a factor of growing importance in resurgent Asia. Owing to her status in the community of the communist countries and her position as a pillar of Asian solidarity, she is bound to realise the need for re-adjustments from within—re-adjustments which are likely to quicken the pace of democratic processes and make the people, as distinguished from the Party, a more important force in the development of the Chinese economy. The Party would, as it is now, remain the vanguard, but 'the mass line'—i.e. the greater regard for and the increasing initiative of the masses would grow in importance. That means that, assuming that world tensions are really reduced, dictatorial character of the

regime would become less important and its democracy much more so. Parliamentary democracy, as it is functioning at present, would not grow out of this likely shift of emphasis, but some of its best features—e.g. government by consent, diversity of thought and views, evolution and not imposition of unity in policy and action and scope for free initiative and experimentation—i.e. the features which democracy at its best is assumed to possess—would be acquired without the parliamentary form and procedure being introduced. That would give not only to China's political system but also her economy an opportunity of growth from within and bring the best elements in the heritage of the Chinese people—serenity and poise, understanding of the essentials and a rational approach to life and its problems—into play and heighten the value of their contributions to their own and world's future.

There is no knowing whether this optimistic forecast will come true; and yet there are some indications that it may. The world situation being as uncertain as it is, the future obviously is unpredictable; and yet the forecast is more reasonable and tenable than any other alternative anticipation. In the situation the relations of China with India have a meaning of their own. The fact that these relations are friendly and have become more and more so since 1949 is one of the happiest auguries for the future. India is and should remain a parliamentary democracy; and in the historical context this course is well chosen and should be adhered to. This difference in political systems is significant, and yet if the substance of democracy is realised in both countries, there is free exchange of ideas and experience, genuine understanding and appreciation of each other's achievements and problems, this difference, instead of limiting the scope of their co-operation, would give it a special meaning and importance of its own. Moreover, if the need for consolidating and fully developing the resurgence of Asia is kept in view, their co-operation would be of immense value to all the peoples in the East. Democracy—political, economic and social—is not yet a realized fact in any country. Its full realization is a hope and task of the future; and the fact that two countries like India and China are taking different roads to it and are maintaining the friendliest of rela-

tions makes them really partners and not rivals in the great adventure of building up socialist society in the two most important undeveloped countries.

The view so often expressed that the success of India in her endeavour to build up a democratic socialist society is of very special importance as it would reduce the 'seductive' power of communist China, shows a lack of historical perspective. India needs all the goodwill that can be made available to her in the gigantic task of transformation, construction and development, and yet she is at present in no position to affect or alter by her example the course of future in China or, for the matter of that, in any other country. Her parliamentary democracy, in spite of real gains of the last few years, is subject to very serious limitations in its working and she cannot become a corrective or an exemplar for China or any other country. The best one can hope for is that serious risk inherent in her political immaturity and the complexity and magnitude of the problems may be overcome, and she may be able to utilize and adapt parliamentary democracy for building up a socialist society. The degree of her success would increase the value of her partnership with China in the great undertaking referred to above. The same is true of internal transformation in China the possibility of which has been posited in the preceding paragraph. The importance of their friendship, it may be repeated, lies in the fact that history has set both of them the same task—the task of introducing and developing socialist society for their respective peoples—and indicated the limits which in the present situation cannot be transcended. They both have to realise the substance of socialism and democracy—each in its own way and with mutual understanding and goodwill. Therein lies the meaning of the friendship and its increasing importance in the context of the present world situation.

In spite of the awareness of this important point, I have not compared the content, means and methods of the development plans of China and India. What is the lesson of China for India is a question which is legitimate and has, within limits of its terms of reference, been answered, for example, by the Indian Delegation on Agrarian Co-operatives in China. I have,

however, purposely abstained from such comparison for two reasons. First, such comparisons, to be useful, have to be made through detailed analysis of the concrete problems, situations and methods of the two countries with due emphasis on the points of similarity and difference. My main object being explanation of the principal features of the new economy of China and its motive forces, comparison would have caused confusion and not helped in understanding it in its own setting. The second reason for my having avoided comparisons is that they would have caused resentment and irritation instead of providing a basis for mutual understanding and appreciation. It is hoped that the readers of the book who know the objects, methods and technique of planning in India, would draw their own lessons and use them for constructive assessment of policies and measures. Comparison in this case would not only have been odious but also distracted attention instead of focusing it on the points of cardinal importance in the working of Chinese economy. I hope that the reasons for this deliberate omission would be understood and appreciated.

My main source of information and materials for this book was six months' stay in China during which I had opportunities of interviewing hundreds of the Chinese in key positions, in government, administration, educational and training institutions, industrial and commercial establishments, agricultural, industrial, credit and trading co-operatives, trade unions, banks and private and jointly-operated enterprises. More than the facts, the contacts with so many devoted men and women all over China give me an insight into the quality of their endeavour, approach to their tasks and the working of their mental processes. I prized this opportunity for itself for I met so many persons with a sense of mission and a real understanding of momentous times through which their country was passing. I cannot possibly share with my readers this incommunicable experience gained through these very worthwhile human contacts. The 'feel' of the revolutionary processes at work, which through these contacts became a part of understanding, and which, I hope, I have been able to convey in some measure in this book—, was, however,

a real gain and has been of great assistance to me in writing this book. I have also used the Chinese publication in English—annual budgets, reports of the Prime Minister and other Ministers of the Cabinet—to the Peoples' Congress and some other publications. I am not listing them in a bibliography. They are so well-known that reference to them in the text should be sufficient to indicate the extent to which I have drawn upon them.

I should add a word about statistics given in this book. I have had no opportunity of examining and assessing them with reference to their sources, methods and technique of collection and validity of comparisons with the earlier—i.e. pre-revolutionary statistics. I have used them as they are; and though their validity and scope does require scrutiny and careful appraisal, I feel that the limitations of the available statistics do not, to any significant extent, vitiate the conclusion based upon them. The statistical organization of China is, as yet, not adequate for her needs; and only a very limited information is available about its structure, methods and working. I hope that the Chinese Government would publish all the statistical material about their economy and make it as authentic as possible. Already considerable improvement has taken place in this respect; but more remains to be done to let the facts—authentic and unquestionable—speak for themselves. Really there is no good reason why the authoritative facts should not be made fully available to all for independent appraisal of the working of the Chinese economy.

In conclusion I have to acknowledge my gratitude to the Sino-Indian Friendship Association which made it possible for me to acquire first-hand acquaintance with and knowledge of the operations of the Chinese economy. I know very well the limitations under which I had to labour. My ignorance of the Chinese language was only one of them. All the same, it was an invaluable opportunity for me—as much, as I have said, for its intangible as for its tangible gains. The individuals to whom I am indebted have to remain anonymous. My sense of gratitude to them is the more vivid on that account.

I might add a word—just a word—about my wife. She has had to share with me the tribulations of writing this book,

particularly in its raw form, among them struggle with a beautifully illegible hand-writing is only one of them. She has done that so willingly and cheerfully that all I really need do is to merely mention this fact.

I do hope that the book would in some measure feed the growing interest in China and her economy and give a true understanding of the processes at work therein

Gyan Chand



## CONTENTS

	Preface	ix-xiv
Chapter I	Pre-revolutionary Economy	1- 13
Chapter II	Pre-revolutionary Economy	14- 37
Chapter III	The New Economy—An Integral View	38- 57
Chapter IV	Land Reform	58- 76
Chapter V	New Pattern of Rural Economy	77-112
Chapter VI	The Trading Co-operatives	113-130
Chapter VII	The New Industrial Economy	131-183
Chapter VIII	Role of the Handicrafts	184-206
Chapter IX	The Function of Labour	207-238
Chapter X	Development of Commerce and Communications	239-271
Chapter XI	Economic Development in the Backward Areas	272-290
Chapter XII	Currency, Credit, Banking and Prices	291-323
Chapter XIII	Public Finance	324-346
Chapter XIV	The Soviet Aid	347-362
Chapter XV	The Population Problem	363-383
Chapter XVI	<i>The General Appraisal</i>	384-413
	Index	415-429

## CHAPTER I

# PRE-REVOLUTIONARY ECONOMY—I

A REVOLUTION—a real revolution—is in progress in China. Now, as never before in that country, profound changes are taking place in every sphere of her life. These changes are, in the first place, transforming men's minds, their social relations and social norms and therefore their whole approach to life and its problems. That necessarily involves basic changes in the whole political, economic and social institutional framework of the country. This revolution, though inspired by Marxian faith and fervour, is really the culmination of the Chinese history over a hundred years, of a chain of events through which an increasing social purpose has unfolded itself and determined the course of Chinese history, its different phases, its vicissitudes, outcome and prospects. It is generally conceded by men of all points of view that the revolution has come to stay, indeed, that its momentous importance, if anything, is likely to grow with the passage of time. No prophetic insight is needed in support of the view that a country of the size and population of China, its long and continuous history of four or five thousand years, its civilization, culture and historical achievements of her people cannot but become a factor of increasing importance in world affairs. This view is reinforced by the understanding of its strategic position and importance in the context of existing world situation. It can well be assumed that this gifted nation will, given the competent and envisioned leadership which it has fortunately thrown up, realise in a large measure the possibilities inherent in the situation; and wisdom and social insight of ages combined with a new social outlook would enable these people to work for and most likely fulfil what looks like their historic destiny.

The revolution has given to increasing proportion of

the people of China a new approach, a clearer understanding of the relation of events and sense of mission in life and history. The general masses are, besides feeling a profound sense of relief after a decade of misrule and anarchy, responding to a call to action with knowledge and confidence. They are keenly aware that what has been achieved in the last seven years is only a prelude to much greater and more significant achievements in a new and glorious chapter in their own and world history. They are still subject to serious stresses; and though the forces of resistance from within have been almost completely overcome, and a great sense of security prevails, the world situation makes continuous vigilance a practical necessity and creates an atmosphere in which tension is maintained, and, to a certain extent, militancy becomes a limiting factor in achieving a balanced view of events and affairs. The Marxian premises, on which the rulers of China are acting, imply that the process of consolidation and growth in operation in that country has necessarily to be a continuous struggle and the people have to combat reaction from within and be prepared for defensive action against aggression. The course of revolution in China has, since 1949, however, been free from any significant convulsion and an increasing sense of confidence and competence has been achieved, creative forces on a large scale have been brought into play and have produced very impressive results. The Chinese people have a long way to go before they conquer poverty and hunger and attain a position in which the possibilities of their heritage and the new sense of destiny can be fully realized, but they have already created conditions for the progressive realization of an economy which can, given diminishing world tension and peace, express and fulfil the new social purposes to which they as a nation have dedicated themselves.

The new government has consolidated its position in spite of manifest hostility of the Western powers, the Korean war which brought to new China a very serious threat to her very existence and danger of internal subversion which persisted for years even after the old regime

had been completely overthrown and discredited. The position has been and is still disquieting and involves a great strain on her resources owing to the necessity of having to build up and maintain her military strength against the real danger of aggression. This fact necessarily has meant and still means a considerable diversion of resources badly needed for economic development from the end of peace to those of defence.

The events which preceded the emergence of the new economy of China are well known but only a brief reference to them is needed to acquire the right perspective for understanding the essentials of the economy. The year 1842 is generally taken as the beginning of the modern period of the Chinese history—the year in which the British forced Indian opium on the resistant Chinese nation and broke the isolation, self-sufficiency and internal equilibrium of the national economy of China. This event introduced a new factor into its working, which meant for over a century a life of humiliation and mounting indignities for the Chinese people, exposed to the Chinese themselves and the world their utter weakness in the face of a new challenge from the West and started the chain of events which reduced China virtually to the status of a semi-colonial country in spite of the fact that nominally she retained her independence and sovereignty. Moreover, these forces increasingly disturbed the basic economic and social structure of the country, created classes which had no place in the old pattern of economic relations, to a certain extent shifted the centre of social gravity, grafted modern industrial system upon her old and moribund agrarian economy and gave foreign interests a dominant position in trade, organized industry and finance. The challenge of the West also brought the Chinese into contact with a new civilization, economic system and concepts which made them critical of themselves. In the main they came to the conclusion that they had to modernize themselves in order to have the strength, knowledge and technique needed to come into their own in the world of the nineteenth century. The forces of change, however, made very slow progress; and it was not until

1911 when the Manchus were overthrown by the vanguard led by Dr. Sun Yat-sen that the old order definitely gave way. A dynasty thereby came to an end, but it meant more political instability and disorder for the people, greater misrule and oppression and hardly any change in basic economic facts which were responsible for the abject poverty of the people and their worsening position. In the first world war incidentally a certain amount of industrialization did take place, but it was greatly distorted by the economic and political ascendancy of foreign interests and was of practically no use for alleviating the miserable lot of the Chinese people.

In 1929 the warring interests were brought under control by Chiang Kai-shek. And, though in that year there occurred the split between the Nationalist Party under Chiang Kai-shek and the Communist Party which eventually led to the complete victory of the latter, for a while the outlook improved and a large measure of political unity was realised. Japan, however, by seizing Manchuria in 1931 and later in 1937 by waging a large-scale war against China itself forced the Chinese people to make self-defence the main pre-occupation. Unfortunately the grim struggle between the Nationalist and Communist parties made it impossible for China to fight with unity and determination; and the dread of communism and internal corruption undermined the spirit of resistance of the ruling party under Chiang Kai-shek. Even after the Sino-Japanese war had become a part of World War II in 1941, in the words of General Stilwell "greed, corruption, favouritism, more taxes, a ruined currency, terrible waste of life, callous disregard of all the rights of men continued". When Japan was defeated and had unconditionally surrendered in 1945, it was impossible to restore political unity in China. Civil War raged all over the country and eventually, in the words of Dean Acheson, the US Secretary of State, "The nationalist armies did not have to be defeated; they disintegrated." A large proportion of military supplies furnished to the Chinese armies by the United States fell into the hands of the communists, the government lost popular support and the

people of China sick and weary of the excesses, horrors and degradations of the Civil War longed for peace, order and good government. When the crusading zeal, efficiency, honesty and unity of purpose of the communist armies brought them victory, they brought to the Chinese people the end of anarchy, an honest and efficient government and an ardent promise that the new regime would work for the welfare and betterment of the masses and their economic and social emancipation in a spirit of complete devotion and dedication. This promise has been kept both in letter and in spirit, and the new economy of China has been brought into a working order and is developing on a planned basis as a result thereof.

The Chinese economy in its growth of three to four thousand years acquired a stable form, its organization was adequate to its needs, her people attained a high level of skill, honesty and efficiency in all economic activities and the products of Chinese industry were in great demand in distant markets and exercised great influence on the arts and crafts of other countries. Until the end of the eighteenth century the Chinese were almost self-sufficient in respect of food, articles of every-day use and luxury goods of high artistic merit; and their international trade was in effect exchange of silk, fine fabrics, porcelain and other artistic wares mostly for precious metals. When the British forced their way into China in quest of power and profits they brought with them, besides superior military technique which they utilized fully for their aggressive designs, the mass-produced goods, industrial technique and economic and financial penetration which disturbed the old equilibrium, introduced economic innovations and exposed the people of China to the impact of forces which they neither could master nor even fully understand. The other Western powers and Japan later entered the field and competed with the British successfully in staking out their claims in the vast economic domain and all of them in fact functioned as a consortium of Powers which exercised economic suzerainty over China with utter disregard for the interests of the Chinese people. The Chinese economy, as it developed, was

retarded or distorted through the combination and competition of these powers, and provides the background with reference to which the new economy now in the process of rapid development has to be understood. The former, besides being a foil for the latter, has also created the conditions, concrete problems and limitations which have had to be taken into account by the makers of new China to evolve the new emergent economy and out of what was left of the old when they came to power.

It is, therefore, necessary to give a brief account of the latter in its main features and state the significant facts of the position as it existed when the change over from the old to the new occurred and the vistas, which now have opened out and are broadening, came into view. This brief account has, for convenience, to be given in parts. In the first part the essentials of the position as it existed in 1936 has to be stated. After 1937, the Sino-Japanese War, the World War II and the Civil War impeded, disrupted and paralysed the old economy. The last twelve years were really a period of disintegration and increasing degeneration. Such facts as are available about this period have to be put together to give a true measure of what is being attempted and accomplished by the new regime. It may be hoped that, in spite of the unavoidable compression of the available material, the background necessary for comprehension of the facts and forces of the present economy in China would be provided.

China being predominantly an agricultural country, its rural framework was the most decisive factor in its economy. Its regional differentiation was determined by natural factors. Wheat, kaoliang, millets, and soya beans were grown in the north-east, wheat and millet in the north, wheat, rice and cotton in Central China and rice and potato in the south, wheat and maize in Sinkiang, Sikang, Changhai and Tibet, western borderlands of China. Tea, silk, cotton and tobacco were grown in Central and Northern China but in respect of both tea and silk, very important articles of export from China in the past, she lost ground in the world markets owing to the superior competitive position of foreign

countries. The Chinese cultivators attained a high standard of efficiency and skill through the experience of ages and the yield per acre of agricultural commodities, particularly rice, compared favourably with most other countries of the world. This was due to the fact that cultivation was, from the standpoint of application of labour, so intensive as to make it more like gardening than agriculture and also to the use of organic manures which were preserved and utilized with extreme care. High yield of rice and some other crops per acre also meant, however, low yield per man and was, from social standpoint, more a disadvantage than an advantage; and the cultivators lived in a very precarious and semi-starved condition. The implements of cultivation were very primitive, even cattle power, owing to the scarcity of draught animals, was inadequate and empirical knowledge deficient in some important respects. The unit of cultivation was almost invariably small, for small scale tenant-farming was the rule even where landed estates were large. The size of holdings varied, but in most cases it was uneconomic and the evil of subdivision of holdings, caused by the growth of population was accentuated by the fragmentations of holdings in tiny plots and very little was or could be done to remedy the situation. Irrigation was an old and hoary art in China and its practice had almost been sanctified by the tradition of ages, but irrigation in the north, where rainfall was scanty, hardly made any progress though in the south the proportion of irrigated land was considerable. Drought and floods were a common occurrence and caused widespread distress and very heavy loss of life. Reckless deforestation and absence of conservation practices meant soil erosion on a large scale and greater incidence of floods. Agriculture being the mainstay of Chinese economy, *in spite of the fact that, absolutely speaking, China produced enormous quantity of rice, wheat and other agricultural commodities, she had to import wheat and rice for consumption mainly owing to poor communications but also occasionally to the local shortage of food grain.* The cultivators themselves lived largely on coarse grain and sold wheat, rice and the surplus in the market, owing to the compelling



pressure of the cultivators having to meet their tax, interest and other cash obligations.

With the growth of trade, industry and modern banking in the coastal region, money economy became an important factor. It penetrated even to remote areas and introduced new stresses in the rural economy. Money transactions in varying degrees became more common in most parts of China and the trader and the usurer acquired much greater importance on that account. Prices and their fluctuations due to local, national and world factors became a matter of serious concern to the peasants and exposed them to new risks against which they had practically no protection. Owing to lack of resources the peasants were in no position to hold their crops and had to sell them immediately or in many cases before the harvests owing to their extremely weak bargaining power at a great disadvantage to themselves. Their ignorance, the lack of means, the pressing nature of their obligation in respect of taxation, rent, interest and personal needs and the economy as a whole being weighted against them, made them an easy prey to the wiles, manipulations and fraudulent dealings of the intermediaries, who in a vast majority of cases combined in themselves the functions of the landlord, the tax agent, the trader and the moneylender. Loans became a much greater necessity than before, and were borrowed at extortionate rates; and owing to foreclosures and otherwise there occurred a large-scale transfer of holdings from the peasants to the rural gentry who, as stated above, had almost absolute power over the former owing to their multiple functions and position. Land became an even more coveted object of investment for the moneyed classes than before because of high returns based upon the increasing oppression and exploitation of the peasantry. Commercialization of the economy, because of the growing pervasiveness of the monetary factors, was a catalytic agent in as much as it made serious cracks in the economy which had remained intact in its essential features for thousands of years and brought into play forces of far-reaching significance, but for the peasantry it meant far

greater power of those who already exercised great authority over them and used it to their greivous disadvantage.

In more concrete terms it involved greater concentration of land ownership which has been, as is well known, in its negative aspects the most potent factor in determining the course and the outcome of the Chinese revolution. In the chapter on the land reform some facts will be given to indicate the extent to which concentration had gone before the advent of the revolution and what it meant in practice to the life of the people in the villages. Land tenure in a vast country like China was a very complicated system and assumed many forms. There were a large number of owner-cultivators and their proportion varied in different parts of the country, the proportion being higher in the north and lower in the south; but the number and proportion of small peasants with dwarf holdings and landless tenants was much larger and there was progressive decrease in the number and proportion of the owner-cultivators almost all over the country and progressive deterioration in the position of the downtrodden section of the peasants, partial tenants and landless tenants. The position of tenants also varied in different parts of the country, and though some of them had a fair amount of fixity of tenure and some protection against rack-renting, share-cropping as a form of tenancy was most common and as a rule the landlords received half, and not unoften more, of the total gross produce with hardly any contribution to the expenses of the cultivation. In the west the landlords were chieftains, exercised political authority and, besides levying high rents, were empowered to exact labour dues which were both *onerous and humiliating*. *The tenants in this area were practically serfs and were bound to the soil.* In Manchuria the landed estates were very large ranging from twenty to hundred square miles and most of the land had been acquired by the bureaucrats, merchants and usurers, and the immigrants, who had come in large numbers from the north, were reduced in many cases to the position of the hired labourers. The landlords were more numerous and powerful in the south than in the north, but tenancy farm-

ing was the rule near the large cities like Shanghai and Canton. Very large estates, taking the country as a whole, were uncommon, most of the landlords owned small properties, were resident in the villages and used their power and position to exercise oppressive authority. They, as stated above, combined with land-owning the functions of the trader, the usurer and the tax agent, and were really law unto themselves. The only check on their arbitrary power was the limit of endurance of the peasantry, and they knew from experience that the risk of the peasants revolt was remote and they could continue their exactions and excesses in most cases without any fear of consequences. The anarchy and misrule from 1911 to 1927—the period when China was without an effective central government and the country was parcelled out among the war-lords, made the position of the peasantry much worse, and with a few memorable exceptions, the landlords enhanced their rents and extorted other dues relentlessly and without remorse. There were plans on paper to alleviate the position of the peasantry, to reduce rents and to give land to the tiller; but these plans were never seriously put into effect and were as a matter of fact only political manoeuvres and not meant to be implemented. Landlords and the auxiliary classes closely related to them—the officials, the merchants, the militarists and the political leaders—were the real power in the country, and they had no intention of using it for their own undoing. Though the inevitable overthrow of their class was writ large on the screen of current history, there was no way by which the abdication of power and position by it (i.e. the landed gentry and allied interests) could be secured.

The communications in China remained poor throughout this period, and whatever railway development took place was due to the scramble of Western powers for concessions and for staking out their claims to spheres of influence. France, Belgium, Britain, Germany and Japan all wanted and secured exclusive rights to construct railways in special regions of their own, and they were constructed without any reference to the real needs of the Chinese

economy or its traffic potential. By 1936 China had less than 10,000 miles of railways, most of them were confined to the eastern half of the country and three-fourths of them were constructed between 1895 to 1915, the period which has been rightly described as the heyday of the domination of the Western countries in China. They were all in the hands of the concessionaries at the outset and even in 1936 about 4000 miles were still owned and controlled by them. With the outbreak of the Sino-Japanese War and during the Civil War the railways became the targets and prizes of offensive and defensive military action, and suffered severely in the process.

The position with regard to roads, inland waterways and coastal shipping was slightly better, but in water navigation again foreign powers acquired and maintained a dominant position. The cost of movement of goods into and out of the larger part of China, in which communications were practically non-existent, was heavy, in most cases prohibitive, the range in variations in prices was very wide and local failure or shortages of food grains assumed the character of famines for surpluses and deficits in food grains in different parts of China could not be matched owing to their isolation from one another. This state of communications not only retarded but also seriously distorted the development of the Chinese economy and was one of the most important factors which accounted for the irrational locations of a number of its industries. Internal commerce could only play a secondary role in its working and seriously limited the internal market.

The British and the other imperialist nations forced their way into China primarily with a view to finding markets for the goods of their countries, and though original expectations were not realized in full, trade remained the most important interest of these countries and was pursued, without any scruples and treaty ports and international settlements on the sea-coast and in the interior were established for the purpose. China was deprived of her tariff autonomy, cruisers and gun boats were used unsparingly to overawe the Chinese authorities, the Chinese mercantile

houses were used as commission agents and they as a class—the compradors—became an instrument of foreign powers and acquired a vested interest in the economic exploitation of their country. A mechanism of finance and banking was created specially to drain the resources of China, enmesh the Chinese economy in its network and promote foreign commercial interests without any regard for the well-being of the Chinese people. Trade between China and the West instead of being based upon the principle of reciprocal advantage was used frankly as an instrument of domination and penetration and to the serious detriment of the vital interests of the Chinese economy. The line between trade and the designs to parcel out China into the colonies of the different powers was very thin indeed, and the fact that the latter, i.e., the designs, did not materialize was, as is well-known, no fault of the powers concerned. International trade between China and the West was not only not an exchange between equals but from the beginning to the end it was indistinguishable from the intrigues and machinations of the Western powers to undermine integrity and sovereignty of China.

Exports from China mostly consisted of food stuffs and raw materials and her imports of metals, machinery, mineral oils and manufactures. Both exports and imports grew in volume but the value of imports was in excess of that of exports and China for over six decades continued to have trade deficits. International trade of China was almost entirely carried by foreign ships and in 1936 the British and Japanese together accounted for more than 56 per cent of the ships cleared at the open ports of China. By 1936 the USA became the leading country in her foreign trade. Between 1933 and 1936 Japan greatly improved her relative position in the Chinese markets. Germany also gained ground during these years and Great Britain more or less maintained her position. The USSR, the countries of Eastern Europe and also the countries of Asia had very inconspicuous position in the foreign commerce of China. It need not be added that the Chinese themselves had a very minor share in handling their foreign trade and almost

the whole of it was the preserve of foreign interests. Through foreign trade economic isolation of China was broken and the forces were set to work which eventually led to the emergence of New China, it was primarily used by foreign interests only as a weapon of economic and political aggression and thereby the interests of the Chinese peoples were ruthlessly sacrificed.

## CHAPTER II

### PRE-REVOLUTIONARY ECONOMY—II

THE GROWTH of modern industry in China had a very modest beginning but by the 1930's it, though small for the size of a country like China, had acquired a significant position in her economy. Factory production was first introduced in the cotton textile industry and was accelerated between 1913 and 1925 owing to the protection which this industry received during the war period; and next to the textile mills, flour-mills were most important, their development was also fairly rapid and match factories, tanneries, paper mills, glass works, canneries, cigarette factories, carpet factories, porcelain and earthenware factories and a few other industries also were producing on a considerable scale. Number of cotton textile mills increased from 12 in 1896 to 54 in 1920, 118 in 1925 and 127 in 1930, of cotton spindles from 417 thousand in 1896 to 1650 thousand in 1920, 3569 thousand in 1925 and 4,223 thousand in 1930 and of looms 2100 in 1896 to 9500 in 1920, 21600 in 1925 and 293000 in 1930. During this period import of raw cotton also increased from 135 thousand picules in 1900 to 678 thousand in 1920, 1807000 in 1925 and 2515000 in 1930 and was mostly imported from India, Egypt and U.S.A. These figures are an index of the growth of the cotton textile industry, but also in a lesser degree of the growth of industry in general; and by 1936 industrialization of China had proceeded far enough to provide a basis for capitalism in this country in the over-all working of its economy and to bring into operation new forces which contributed largely to its social transformation.

Industrialization of China, such as it was, was marked by undue concentration of factories, railways, banks, mines and electric power in certain local areas and urban centres. In the words of R. H. Tawney "the six provinces of Kiangsu, Liaoning, Hopei, Kwantung, Shantung and the Hupeh con-

tain some ten per cent of the area of China and perhaps almost 36 per cent of her population. But they account for 92 per cent of her foreign trade, 53 p.c. of her railways, 42 p.c. of her motor roads, 64 p.c. of her coal and iron-ore output, 93 p.c. of her cotton yarn spun, 92 p.c. of silk reeled. 86 p.c. of the oil pressed and 87 p.c. of the electric power capacity."<sup>1</sup> Shanghai was the most important centre of the textile and a number of other industries of foreign and Chinese banks, home of industrial and financial magnates, and also of best organised unions and the base of operation of the revolutionaries. The other cities like Tientsin, Wusili, Hankow, Canton had also regional importance and created similar social stresses and results. The disproportionate concentration of modern industry in certain areas and cities was, as stated before, due to the distorting effect of foreign control of and penetration in the Chinese economy and had no relation to its real interests and needs. This meant not only unbalanced development of industries in China but also morbid—almost dangerous—growth in her economy in certain vital centres. "The comprador economy" to quote Sardar K. M. Panikkar, "of the city (Shanghai) produced a class of merchants, middlemen, bankers and agents of foreign firms, whose financial power, when allied to old Chinese merchant guilds, became immensely powerful in relation to the internal conditions of China."<sup>2</sup> The other industrial centres also produced the same class in varying degrees and this new fraternity exercised a very harmful effect on the working of the Chinese economy and degraded her economic, social and political life. It was both the symbol and the instrument of colonialism in China and of course was allied with the forces hostile to her liberation.

Direct control of the Chinese economy by foreign interests was no less important than the indirect control, and involved, besides the acquisition of concessions and settlements, direct intervention in internal matters and extra-territorial rights, ownership and control of key industries.

<sup>1</sup> R. H. Tawney, *Land and Labour in China*, p. 127.

<sup>2</sup> K. M. Panikkar, *Asia and Western Domination*, p. 175.



To quote from R. H. Tawney again, "It is still a case, however, that over one quarter of railway milage, over three quarters of her iron-ore, mines producing more than half her output of coal, more than half the capital invested in cotton mills, smaller but not negligible portion of that invested in oil mills, flour mills, tobacco factories and banks is in the hands of foreigners."<sup>1</sup> Foreign control on industries in particular and the economy in general increased in 1923 and Japan specially extended her economic power in China and acquired a dominant position in a number of industries. In 1931 Britain, Japan, U.S.A. and France<sup>2</sup> accounted for 49, 24, 8, p.c. respectively of foreign investments, including Government obligations in China, and their control had become more extensive and far reaching after the overthrow of the Manchus in 1911. The sinister role, which foreign investments played in the Chinese economy during this period, has left an impress upon the Chinese mind which has become an impassable barrier for the inflow of foreign capital from the Western countries into New China.

Factory production produced industrial proletariat but their number was probably a little more than half p.c. of the total population. The conditions of work, the level of wages and living conditions of the workers were, generally speaking, truly appalling. Average working day was between 10 to 12 hours, maximum being 14 to 15 hours, the wages varied from \$10 to 20 p.m. (Chinese currency) for men, \$ 6 to 15 for women and \$ 2 to 10 for children and were generally below the subsistence minimum, and the working conditions, in the words of Tawney, "recalled those of the first and worst phase of the Industrial Revolution in England."<sup>3</sup> Trade union for protection of the workers came into being and by 1927, the time when there was a real upsurge of the working classes, their membership was officially put at over 3 millions; but soon after they were

<sup>1</sup> R. H. Tawney, *op. cit.* p 129

<sup>2</sup> *China and Japan*, Royal Institute of International Affairs, p 98

<sup>3</sup> R. H. Tawney, *op. cit.*, p 149

severely repressed and in 1930 the official figure was reduced to less than half a million. These figures are not above suspicion, but organised labour, in spite of being the object of ruthless repression, became a significant factor in the Chinese economy. The condition of labour, however, remained extremely poor and worsened even before the Sino-Japanese war broke out. The sufferings of labour in China were acute and in human life and happiness they amounted to unconscionable prices for such industrialization as actually took place during this period.

Handicrafts of China, like handicrafts all over the world, were an integral part of the pre-capitalist economy. They were, however, more ancient than the handicrafts of most other countries, had attained a high degree of skill and artistic perfection and their products were, since remote antiquity, highly prized in distant markets and many channels of trade had been developed by the dealers in these products. Besides highly developed crafts many auxiliary occupations had also been practised as a part of agricultural economy, and provided seasonal and off-time occupation to men, women and children in the villages. These auxiliary crafts were not highly specialized, their technique was relatively low and as a rule their products were not marketed. Imports from foreign countries and mill-made goods within the country hit the handicrafts hard, linked them with world markets and exposed them to risky fluctuations of prices. Even some of the auxiliary crafts suffered, but the more highly developed and specialized ones were particularly exposed to severe competition. Dependence of the craftsmen in varying degrees on the merchants grew up, and the latter in effect became employers and the craftsmen wage-earners who were paid commission or daily wages. *Some crafts acquired a subsidiary position to factories and a number were attached to them in different forms.* Even in the production of coal and iron-ore small scale producers had a place of their own, depended almost entirely upon manual labour and accounted for one-third to one-half of the total output. The small crafts were in the real sense of the word sweated industries, the workers, in most cases,

were completely unorganized, received miserably low wages, their hours and conditions of work were unregulated and as a rule involved enormous amount of strain. The craftsmen and workers in small industries received practically no help or assistance in their struggle against odds, and a few co-operatives that were set up for their benefit were mostly ineffective and really never received a fair trial. The position of handicrafts and small industries in China, in essential respects, was not at all different from that of the similar economic units in India. In China, however, civil disorders and political instability made their position much worse; and the fact in spite of all these disadvantages they did not become extinct, was due to history, tradition and economic necessity which saved them from elimination. They languished, the workmen suffered distress and were reduced to penury and there was even deterioration of skill, artistic excellence and taste in colour and designs; and yet they were not killed. In the new economy they, as stated later, have been assigned a place of their own and it is likely that their precious heritage will be conserved and developed.

Merchants' guilds have been referred to above. They were ancient institutions, but there were also guilds of handicraftsmen and both played an important role in the Chinese history. Thousands of these guilds, some of whom had provincial and even national organisations, functioned actively to protect the members against the excesses of officials of all grades, sharp practices of the other members and unfair competitions of the other guilds. They regulated weights and measures, observed and enforced secrecy when the latter was considered necessary and in time of trouble they safeguarded and defended the position of members against encroachments on what they considered their legitimate spheres. They also at times manifested monopolistic tendencies and were used to support anti-social privileges and practices. They had sanctions of their own, transgressions against their rules and codes were severely dealt with owing to the members being readily amenable to the guild discipline. The craft guilds had master craftsmen, journey-

men and apprentices as in the West, and like the latter maintained standards, preserved and transmitted inherited skills and provided social services and mutual aid in different forms. The guilds had also ceremonial and ritualistic functions and undertook cultural activities. They were rooted in the past; and owing to their functional importance, they continued to operate throughout the period of disorders and misgovernment after 1911, and mitigated the effects of the latter by shielding their members and maintaining conditions under which business could be conducted with some semblance of order in the prevailing disorder and lack of security. During this period, as Sobel Mogi and H. Vere Redman put it, "Though China suffered extremely, as a nation the life of the Chinese is kept going by the guilds."<sup>1</sup> This corporate sense, which is a part of China's social heritage, can be and it may be expected, will be an asset of inestimable value for the future.

Currency, banking and finance, which were of increasing importance in the changing economy of China, have to be referred to even more briefly than agriculture, trade and industry. China remained a silver standard country long after white metal had been demonetized even in countries like India, Philipines and Indonesia. This had a very disturbing effect on her economy because the fluctuations in the world price of silver changed the foreign value of her currency and its depreciation added to the burden of her foreign obligations which were heavy owing to very considerable debt charges and continuous adverse balance of trade. There was really no monetary system within the country, weight and fineness of the coins varied in different parts of the country, there was no centralized system of note-issue and even foreign banks arrogated to themselves the right of issuing notes of their own. Remittances from one part of the country to another gave rise to complicated problems of conversion and heightened the speculative risks

<sup>1</sup> Sobel Mogi and H. Vere Redman, *Problem of the Far East* p. 272.

of these dealings. Several attempts were made to introduce currency reform but without success; and it was in 1935 that at last the silver standard was abandoned and replaced by foreign exchange standard with exchange-equalization fund and centralized system of note issue. The new system could and should have improved the currency position and given the country a greater degree of unity in this sphere; but in less than two years Japan started the war which upset all calculations and the fact made the currency situation much worse than it had been before.

China had its own indigeneous system of banking which had functioned for and grown through the centuries, but modern organized banking had begun to develop in the middle of the 19th century, and in 1937 there were about 29 foreign and 65 modern Chinese banks. Among foreign banks the Chartered Bank of India, Australia and China, the Hong Kong and Shanghai Banking Corporations, the Duetsch Aslatische Bank, the Yokohama Specis Bank, the Bank de l' Indo-China and the National City Bank of New York were the most powerful and used their power, so far as China was concerned, for sinister ends. They financed trade and industry, were well managed in the ordinary sense of the word, followed sound banking practices, provided security for the depositors and maintained good accounting standards. They however also spun a web through which the whole Chinese economy was subtly but very really controlled by them, they participated actively in the scramble for concessions and spheres of influence, they represented their countries in the financial deals with the decrepit Central Government, negotiated loans with the latter and used them for increasing China's bondage; they manipulated the rate of exchange, directly controlled foreign trade and through their agents—the compradors—they cast their net wide and reached out to all crannies of the Chinese economy to which they otherwise had no direct access. They financed and supported military adventures, promoted and prolonged disunity in China and right up to the end they did their very best to fasten the chains which China was striving so hard to break. Some

of them are still functioning in China, but they are not even shadows of their former selves. Their names are closely interwoven with the chapter of Chinese history which, it may be taken, has been closed for ever.

The modern Chinese banks were small compared to foreign giants, a number of them attached themselves to the latter, and even when they acted on their own, they operated within the limits of the economy which inhibited their growth and was in its turn inhibited by them. There were also public institutions i.e. the Central Bank of China, the Bank of China, the Bank of Communications, the Farmers' Bank of China each of which had specialized functions of its own. The Central Bank was, after currency reform of 1935, invested with most of the functions of a national central bank and by 1942 it acquired the sole right of note issue. The Bank of China became the foreign exchange bank of the state. The Communications Bank was originally intended to act as the agent for the collection of government revenues from railways, telegraphs, posts and navigation, but in 1928 its regulations were revised and it acquired the functions of an industrial bank. The Farmers' Bank was founded in 1933 for assisting and developing agriculture and by 1936 it had 75 branches and sub-branches, mostly in the coastal provinces. These institutions were charged with important public functions; but there was no integrated system of banking in the country, these institutions had very little motive power and hardly produced any results. There also existed 15000 rural-credit co-operatives with 100,000 members but they were of no real consequence in the country's rural economy.

Land Tax, customs, salt tax, inland transit duties, commodity taxes and some other minor taxes were the most important sources of public revenues, but except customs and salt tax, which were administered by foreigners and were largely used for securing the payment of interest on foreign loans borrowed by the Government, the other taxes were very inefficiently administered, their assessment was unfair, evasion of taxes was widespread, corruption in their collection was common and the revenue due to the

Central Government was intercepted by the provincial authorities without any authorization whatsoever. Up to 1927 the Republican Government was suffering from large chronic deficits and a large proportion of its revenues—nearly 45 p.c. was spent on the army. The position improved after 1927, the revenue increased, the gap between revenue and expenditure was reduced and by 1936 balanced budget was well within reach. Owing, however, to the limitations of the whole administration, welfare functions of the state received hardly any attention. Inefficiency, corruption and evasion on a large scale continued and military expenditure accounted for only a little less than half of total expenditure. Land tax was assessed and collected on the basis of valuation made in 1713, was very unfair in its incidence and the abuses in its administration and collection were responsible for the grave harassment and oppression of the people in the villages. Land tax and inland transit duties were the mainstay of the provinces, in practice both were iniquitous imposts, caused the greatest amount of hardship to the people and deservedly brought the Government into disrepute. All important taxes were indirect taxes and the distribution of the tax burden was extremely inequitable, i.e. the poorest had to bear the heaviest burden. The structure, working, administration and effects of the system of public finance all meant that the people were mulcted, despoiled, reduced to distress and could see no tangible return for all their deprivations and hardships. To them it meant only a system of arbitrary exactions, completely unrequited payments and a manifestation of might without right.

Foreign control of Chinese economy has been indicated and commented upon above. It was all pervasive, it was obvious and complete in treaty ports and international settlements; and on the sea coast and Yangtse it was brought home to the Chinese people by the patrolling naval vessels and gunboats, which occasionally did some killing to show that they meant business and were brought into full action when new demands were to be made on the Chinese Government or a new unequal treaty was to be forced upon the latter. Through commerce and banking,

as already stated, the Chinese economy was ingeniously and often insiduously made to subserve the purpose of foreign interests and the needs and the interests of the people were sacrificed without the slightest hesitation or consideration. Among the other measures, the one, which was such a clear infringement of the Chinese sovereignty and a means of commercial exploitation and financial penetration, was the transfer of maritime customs to foreign control soon after 1842 and the imposition of severe restrictions on the freedom of the Chinese Government to levy tariff duties. "Fair and regular tariff of export and import and other dues" was demanded and conceded by the Treaty of Nanking of 1842. Under the regulation of trade and tariff of 1848 the tariffs were based on 5 p.c. of ad valorem rate for both exports and imports. In 1857 by the treaty of Tientsin the tariff rate of 5 p.c. was to be calculated on the basis of the then current prices. This basis held good until 1901 when the tariff rate was revised on the basis of the average prices of three years ending in 1899 to constitute an effective 5 p.c. rate. Even this basis became out of date before long and was actually 3.90 p.c. in 1914 and 3.13 p.c. in 1916. In 1918 the rate was revised and raised to the effective 5 p.c. level again. Certain concessions were made a few years later at the Washington Conference; but full tariff autonomy was won only in 1928 and the new tariff law went into effect on February 1, 1929. As a result of this change the maritime customs revenue in 1937 rose to \$ (Chinese) 343 million from nearly \$ 75 million in 1929. This was due as much to the expansion of trade as to the higher tariffs, but can be taken as a rough measure of the loss suffered by China during the seventy years of political subordination in the matter of tariffs. The low tariff rates, besides their political implications, meant that the influx into China of cheap goods from foreign countries hit badly the Chinese handicrafts and of course, had serious repressive effect on the development of the infant industries of China. Direct intervention by foreign interests in the economic sphere was not confined to tariffs. Loans were advanced to, in a number of cases forced upon, the Chinese Government, consortium



of banking interests of foreign powers were formed to share out the loans granted for political, administrative and economic purposes and 'finance capital' in China operated openly and its strategy was frankly aggressive and unabashed.

The U.S.A.'s part in this game of 'grab what you grab can' in this period took the form of what is known as Open Door Policy, which was liberal in profession but as acquisitive as that of any other power in practice. It was really a policy of what Owen Latimore has called 'hitch hiking imperialism in preference to active imperialism'. This policy, in the words of Latimore 'did not propose a cessation of imperialistic demands, they merely registered a claim of 'me too'. That is to say whatever any country took in China, it must have an Open Door for American trade and enterprise'<sup>1</sup> This policy did save China from being cut up into colonial possessions, but in effect it meant that the U.S.A. could have full benefits of economic penetration into and exploitation of China without incurring the odium of having openly staked out her claims. In referring to this policy Bertrand Russel pointed out the blindness of the Americans to the real meaning of their part in the spoilation of China and stated, "All I ask them is that they should admit that they are as other men and cease to thank God that they are not as this publican."<sup>2</sup> The point which matters in this is that the U.S.A.'s record in this period of "free for all" scramble is about the same as that of the other countries in spite "of the use of the Boxer indemnity for the education of the Chinese students, the abolition of extra-territoriality during the 2nd World War and our (American) aid to China during and since the close of the war."<sup>3</sup> The Chinese people remember the U.S.A. not only for what she has tried to do since the close of the war to undo all that they have done for themselves, but also what she did during the dark period of her history when China was

<sup>1</sup> Owen Latimore, *The Making of Modern China*, p. 121.

<sup>2</sup> Bertrand Russel, *The Problem of China*, p. 167

<sup>3</sup> *United States Relation with China*, Letter of Transmittal by Dean Acheson, p. IV.

trying desperately to find her own feet. The tension, which the U.S.A. is now creating in order to put the clock back in China and make history move in reverse gear, is heightened by the Chinese remembrance of the role which she played to forge the chains of bondage during the period of her political and economic subjection.

Before the review of the Chinese economy until 1937 the Sino-Japanese war is concluded, it is necessary to say a few words about China's population situation in say 1936. for the latter was and is still a matter of great concern to many people outside China who are otherwise well-disposed towards her—of greater concern to the latter than to the Chinese themselves. As the first census of China was taken in 1953, the appraisal of the situation has to rest upon such facts as were known about her population in the pre-revolutionary period. The estimates of population of China, based as they had to be, on inferences, varied but generally 450 millions was accepted as the nearest approximation to the truth. The density of population varied very widely. It was as low as 2 persons per sq. mile in some provinces, but rose very high in the areas of great concentration areas to 6000 per sq. miles, and over large areas it exceeded 600 to 700. Six sevenths of the population was confined to these areas but that was, according to the writers, who could speak with knowledge, due to the fact that two thirds of the areas could not possibly support more than one sixth of the population. The birth rate, the death rate, the rate of infant mortality were all high; and according to one view<sup>1</sup> China has practically a stationary population and according to another<sup>2</sup> it was increasing a little over one per cent

<sup>1</sup> "It is possible, if not likely, that the population of China is at or near the Malthusian level", Carr-Saunders, *World Population*, p. 190.

<sup>2</sup> These figures are taken from *A Study of Chinese Population* by Chi-Ming Chiu (*Melbank Memorial Fund Quarterly Bulletin*, 1934). They are not very different from semi-official estimates according to which the birth rate in China was 39.7 per thousand, the death rate 27.9, the natural rate of increase 11.6 and infant mortality at 163.8 per thousand (*The Chinese Year Book* 1944-45, pp 76-77).

every year and the birth rate was 36.6, death rate 25.7 and the rate of infant mortality 157 per thousand.

Foreigners were mostly agreed that China was greatly over-populated and it was absolutely essential for her people to adopt the practice of deliberate family limitation on a large scale if China was to cease to be what was called a classic case of the operation of the Malthusian Law. Two or three opinions may be quoted. Bertrand Russel, for example, wrote 'No permanent cure for their (the Chinese) poverty is possible while their families continue to be so large.'<sup>1</sup> In the words of R. H. Tawney "The struggle of a swarm of human beings for a bare physical existence is an over present reality—Famine is the economic, civil war the political expression of the pressure of population on the means of subsistence."<sup>2</sup> According to him "Industrialization therefore, like migration is not a substitute for the control of population through restriction of the birth-rate"<sup>3</sup> It appears that Dr. Sun Yat Sen also held similar views for he wrote in a letter written to a friend "China is already suffering from over-population which will bring impending danger in its wake—our food problem is already very acute. The situation will be much worse as the time goes on. If we take no timely remedy, it will surely worry us."<sup>4</sup> The Malthusian view was the accepted view of the Western writers and was probably shared by a large proportion of the educated Chinese. This view, as stated later, is now, according to the accepted Marxian approach, regarded as a dangerous fallacy. The validity of the latter position need not be examined here. The factual position, however, can be stated that the enormous population of China was very unevenly distributed; the pressure of population in five or six areas of concentration was very heavy and involved sub-division of holdings, under-employment of agricultural population and very precarious existence for the people

<sup>1</sup> *Op. cit.*, p. 73

<sup>2</sup> *Op. cit.*, pp. 102-104.

<sup>3</sup> *Op. cit.*, p. 141.

<sup>4</sup> Sun Yat Sen in a letter to Li Hun Chang quoted by P. Cressy in his *Geography of China*, pp. 23-4.

which meant appalling mortality when catastrophies occurred and could not be provided against. The population position was, whatever the cause, in fact extremely unsatisfactory and a very disquieting feature of the Chinese economy.

From 1937 to 1949—the period between the beginning of the Sino-Japanese war and the establishment of the Peoples Republic of China was a period of a very severe distress for the Chinese economy owing to the military occupation of the eastern provinces by Japan, offensive and counter-offensive campaigns, ineptitude and corruption of administration, both civil and military, lack of unity in plans and action owing to deepening dread of communism, in spite of the country being in the grip of a real life and death struggle, the increasing oppression of the masses in face of the growing loss of popular support and therefore inability of the Government to rally the masses behind them. The breakdown of law and order in many parts and what was more important both as the cause and result of the disruptive forces at work in the economy, the inflationary spiral during and after the war made orderly economic life impossible and created a sense of insecurity which had disastrous effect on the economic life of the country. Immediately after the surrender of Japan there was a breathing spell during which it was hoped that civil war could and would be averted and the country would make a new start in national reconstruction on a grand scale. It was, however, clear by the end of 1947 that the civil war would run its course; and in its last phase of over year and a half dislocation, destruction and anarchy were at their worst, inflation became a raging fury and the peoples' one hope was the liquidation of the old regime. The hope eventually was realized, but in the interval the economy went through in some cases worse horrors than it had known during the war and suffered from complete lack of confidence and paralysis of activity. When the civil war came to an end, the economy was in a state of prostration, the loss of life and property had been incalculable and the people were in a state of utter exhaustion.

The period of twelve years was not only a period of misery and suffering but also a period of increasing disintegration during which the new forces gathered strength and prepared the way for the new economy. The economy having been found completely wanting when the country was in a state of mortal crisis, special significance of the period lies in the conviction that it brought home to the masses that the old system had outlived its need and had no capacity for survival. Rehabilitation and construction achieved since the end of the civil war have to be measured by the extent to which disintegration had proceeded during the civil war and had created a sense of dismay. It is not necessary to recite the events of this period in any detail. Only the more significant facts which are of interest for understanding the new economy need to be narrated. The problem of production and finance became acute and baffling owing to the growing deterioration of the economic situation. Inflation in China, which was in some measure unavoidable, became hyper-inflation during the civil war and it put the whole economy completely out of gear. It also needs to be explained and shortly described because of its paralysing effect on the economy. Two other developments of this period also call for brief narration and explanation, more on account of their bearing on the future than their intrinsic importance. Industrial co-operatives grew up during the war period and within certain limits, sustained the war economy. They attracted wide attention as they were regarded as experiments of real value not only to China but also to the believers in decentralized initiative and production all over the world. Their experience, therefore, needs to be outlined in its essentials. The other development, which was of far greater importance and has in fact been invaluable to the makers of new China in their task of rehabilitation and development is the experience which they acquired in building up the rear in the area under their control during the war. It (the rear) became a testing ground of their theories, enabled them to carry on administration and war effort under stupendous difficulties, gave opportunities to very large number of persons to acquire

experience of creative work with odds against them and provided experience with which they prepared the blue prints of their plans and put them into effect as soon as they came to power, made the change over as smooth and painless as it actually was and gave them a sure basis for what they have accomplished since then. This growth in an economy, which was otherwise in a state of progressive disintegration, pointed to its potential under favourable circumstances and blazed new trails of great consequence for the future. The main points of this achievement need to be briefly set forth because of their bearing upon its new economy. Production and finance, inflation, industrial co-operatives and the incipient new economy are the specific topics which need to be dealt with in the statement of economic position in China during these eventful and trying years. They will be taken up in the order in which they have just been mentioned and only their bare essentials will be explained.

Production in agriculture and industry, it need not be said was disorganised and suffered severely owing to the Chinese territory being over-run by Japan; and owing to the concentration of the Chinese industry in coastal towns nearly 95 p.c. of industrial production was lost to free China. Disruption of communications and cutting off the roads from Indo-China and later also from Burma, imports from foreign countries were virtually stopped and China was for all practical purposes isolated. Efforts were made to remove machinery of factories from the occupied to the unoccupied areas but met with a limited amount of success; and about one tenth of the total number of machines and less than that proportion of productive capacity could be transferred to the unoccupied area. Industrial production in the latter was expanded and official general index rose from 100 in 1939 to 320.47 in 1945, but in fact in absolute terms, it amounted to little and shortage of commodities was acute. Production of coal for example increased from 4.8 to 5.8 million tons, of petrol from 73 thousand gallons in 1940 to 4 million gallons in 1943, of iron from 55 to 84 thousand tons, from 1940 to 1944, steel from 1364 to 13,361 tons, of mill yarn from 49 to 121 thousand bales and mill made cloth from 1.6

million to 2.1 million pieces in the same period. The backward provinces like Schzuan, Kwiechoo, Sikang, Kansu and Sinkiang made a certain amount of progress in industrial production, and as modern industry practically did not exist in these parts, that was a distinct gain; but the over-all industrial position remained completely inadequate and as a very large part of it was earmarked for the army, the people had almost to go without these goods. During the civil war the position became much worse and production fell to the lowest level. The indices given in the footnote of industrial production in 1949 speak for themselves.<sup>1</sup> In agriculture, apart from the damage inflicted by the war, production suffered owing to the depressing effect of heavy and unfairly assessed land taxation, extensive compulsory levies to feed the army and the bureaucracy, exaction of the landed gentry and the general oppression of the peasantry. Starvation of the people was widespread, mortality was far above the normal and the whole situation was extremely depressing for production. In the villages the concentration of land ownership became much greater and the small peasants, tenants and hired hands were even in a much worse position than before the war. The fact that these injuries were inflicted after the people had been exhausted by resistance, misrule and disorganization of the eight war years made them even more grievous and the people were reduced as stated already, to a state of blank despair.

Complete figures of revenue and expenditure of the war and post-war years are not available, but heavy and increasing gap between the two became inevitable owing to the course of war events, pursuit of unsound financial policies and sheer mismanagement. Customs revenue, which accounted for more than 40 p.c. of the pre-war tax receipts,

<sup>1</sup> Index of Industrial Production in China in 1949 (pre-war Peak productions 100):

Pig Iron 10.9; Steel Ingots 15.2, Finished Steel 17.8; Coal 44.5; Electricity 72.3; Cement 30.9; Caustic Soda 52.9; Cotton Yarn 72.4; Cotton Piece Goods 72.6; Car tyres 35.9; Paper 89.5; Flour 77.6 and Sugar 39.6.

mostly fell into enemy hands owing to the loss of the coastal towns and by 1941 less than 14 p.c. of total tax could be collected by the Chinese government. In 1943 land tax was converted into a tax in kind, but the centuries old basis of assessment was not changed, and though this measure brought some financial relief, it became a cause of greater harassment and misery to the people. Taxes on income, profits and legacies were levied but their yield, relatively speaking, was not considerable and they were administered badly and largely evaded. The expenditure increased at a hectic rate, the budgeted expenditure was 190 times in 1943 compared with the pre-war level (about a billion Chinese dollars) and in March 1946 it had increased to \$2525 billions (Chinese) and later there were large supplementary authorizations. By 1940 tax and ordinary receipts covered less than 25 p.c. of the total expenditure, in 1941 less than 15 p.c. and after a short improvement in 1943, the proportion fell still lower and in the post-war years the position was never retrieved. Besides the impositions in cash, the people had to submit to requisitions and labour levies and the latter made their burden almost incalculable.

The increasing gap between the revenues and expenditure, the scarcity of commodities, hoarding and unfair distribution of the goods in short-supply brought about enormous rise of prices. The issue of paper currency at a continuously accelerated rate to cover the ever-increasing deficit was the prime cause of rising prices. The rise of prices was not uniform in the different parts of China, and in the occupied area the Japanese issued their own currency or currencies, for there were several currency zones in the area in their occupation. The index number of prices in August 1945, for example, was 179300 in Chungking and 179100 in Tientsin with 1937 as the base year. This frenzied course of the Chinese prices could never be arrested in spite of the introduction of gold currency in 1948 in place of the depreciated currency, and by the end of this period the prices were rising every hour, had risen to astronomical heights and paper currency had become completely worthless. Anarchy of calculations created



by hyper-inflation brought its nemises and involved extreme inequality, business was in a state of suspended animation, property value became fantastic and the rich amassed enormous unearned fortunes. Wages and income, except in a few cases failed to keep pace with the fast soaring prices and unmerited deep distress was the lot of a large majority of people. Economic calculus being impossible, there was not only a panicky retreat from currency, but also in the context of the whole situation, a feeling of certainty of the impending crash was combined with the dread of the unknown.

In this period of disorder and decay an experiment was tried during the war which at first aroused hope and created enthusiasm, and it looked as if at least in one important sphere the economy in China was regenerating itself. Industrial co-operatives or Induscos as they were called for short, were organized in the early years of the war to provide the economic basis for protracted resistance to Japan, to create employment for the refugees who trekked West to escape the Japanese occupation and tyranny and to supply the commodities of every day use which were very short and could not otherwise be provided. These co-operatives, as stated above, filled many with great hope; and in the beginning the tide of enthusiasm which they created made considerable progress possible in organising and developing them. Edgar Snow called them *Odyssey of an Idea*. Sir Stafford Cripps spoke of them very warmly and said, "Chinese Industrial Co-operatives are building the foundation of a new democracy in China." Jawaharlal Nehru called them 'a fascinating experiment which had already achieved so much and which held so much promise in the future.'; and Nym Wales was even more appreciative and said, "The history of new co-operative industry in China is one of the most dramatic stories that has come out of the Sino-Japanese war. One can never give up hope in China somehow. As soon as you feel that all is lost, some meteoric phenomena like this appears and you realize again the immense vitality which lies immobile in this vast nation." All the enthusiasm was, however,

somewhat misplaced for though under the pressure of public opinion, both at home and abroad, the Chinese Government gave the co-operatives grudging support in the initial stages, by 1941 the movement came to be regarded by the then rulers as a subversive development and many of its leaders and organizers were persecuted, imprisoned, hunted and killed. Rewi Alley, the soul of this movement, whom Joseph Needham, F.R.S., the famous bio-chemist of the Cambridge University, spoke of 'as one of the half a dozen immortals in whom it has been possible to see and touch what constitutes human greatness' was deprived of his post and practically driven north where he started and developed a fine educational experiment at Sandan in Kansu. These co-operatives continued to exist for a few years, but in 1945 their number in the area under the rule of Kuomintang had been reduced from 1738 in 1940 to 1066 in 1945 and the real life had gone out of them. Those, who survived this persecution, have however, been able to use their faith in the co-operatives and the experience acquired in their difficult times to contribute to the building up the mass movement in co-operation in China to-day. In the Border Region in which the communists were in power, the co-operatives took root, achieved great success, held and threw back the economic offensive of the Japanese and developed a secure base for economic development through co-operation. This is, however, a part of the whole story of the magnificent effort which was put forth in North West and which, as stated already, became a real laboratory of social experiments and a training ground for the makers of New China. This story in its economic aspects is narrated in the following paragraphs.

In the Border Region with its capital at Yunan the communists, as is well known, established their government after the epic Long March and later made it the most formidable stronghold of resistance to Japan. They gave this area a honest, competent and truly peoples' Government—i.e. a government which had full confidence of the people and was devoted to their welfare. Later in a large number of the Liberated Areas with a population of over 90 mil-

lions regional governments were established. These governments were in the rear of the enemy lines and were established to organise resistance and promote and protect the interests of the people. In these areas the communists were in control, but they took very special care to see that they enjoyed willing support of all sections of the people and the latter were actively associated with administration. In the Border Region and Liberated Areas they, besides maintaining a large army, adept in mobile warfare, built up an administrative apparatus which safeguarded security of life and property, put an end to the oppression of the masses, ensured that they had at least the barest minimum and incentive to do their best, developed local resources and the largest measure of self-sufficiency badly needed owing to these areas being blockaded by both the Kuomintang and the Japanese forces and mobilized the masses to increase production to the utmost. All these measures were needed urgently to maintain and intensify resistance and later to win the civil war.

Now the interest of this remarkable chapter of the Chinese history lies in the fact that during this period, guided by these clear-cut and down-to-earth theories and by their creative experience and growing understanding of the vital needs of people, the communists achieved large measure of success in organizing and developing the economy of the areas under their control; with incredibly limited resources they provided food and other essentials for the people and the army, improved the living conditions of the masses, expanded production of agriculture, industry and handicrafts and trained a large number of cadres who rose to the occasion and, besides having the qualities of self-denial and devotion to duty, they acquired competence, flexibility, capacity for team work, gift for leadership and the social technique of carrying the masses with them and what is more important, creating their own leaders. These cadres became the large nucleus of the administrative cadres who now are in key positions in China and have multiplied themselves by kindling the same spark in those who have joined them after the revolution.

The communists, to use their own highly expressive phrase, moved like fish in a sea of peasants. They gave the highest priority to the well being of the latter and made them a power in village administration. The landlords were left in possession of their lands but the rents were reduced, and as they also were generally money lenders the rate of interest was regulated and restricted. They, however, divested them of their dominant position in village government and vested the entire power in elected village assemblies in which the poor peasants and landless labourers came to the top. This, in spite of their moderation in making economic changes, was a real revolution and changed the very basis of village economy. It gave these areas grass-root democracy, put an end to feudal power and released new energy and produced confidence which was the secret of their success in both the war and the civil war and the master key with which they produced the results which they actually did in organizing defence, production, trade, industry, handicrafts, communications and all other economic activities. This is how, to use the words of Nym Wales again 'the immense vitality lying immobile in the vast nation' was brought into action in these areas—and only in these areas.

The co-operatives were one of the most important means through which the vitality was channelized. In labour exchanges which were really what are now called mutual aid teams, labour, cattle, implements were pooled together and all-round economy was realized and surplus labour power made available for the other urgent tasks. The principle of co-operation was applied to trade, transportation and specially to handicraft industry. It is in these areas—in the Border Region and the Liberated Areas—the Indusco became a real Odyssey of an Idea, received the utmost encouragement and help from the government, drew upon the interest, zeal and native skill and ability of the craftsmen, utilized the idle resources and increased wealth which was made available both for carrying on the war and the betterment of the conditions of the people. The army and the cadres—the officials—participated fully in the battle of production, identified themselves completely with the people and earned with the

sweat of their brow their own 'keep'. From Chairman Mao downwards all put in their daily quota of production work and created the climate in which co-operation became a genuine manifestation of a powerful upsurge in the community.

All other auxillary measures were taken for making the new economy in these areas co-operative in its spirit and working. Banking was organized and the basis of credit granted to the peasants was not the material security which they could provide but their credit-worthiness in the truest sense—their integrity and fidelity to the purpose for which the loans were granted and which were also underwritten by their fellow-members in the village community. Taxation—particularly land taxation—was re-organized, its assessment and administration were placed above suspicion, its incidence was made fair by exempting the poorest and graduating the rate according to the ability to pay. The tax payers were given belief amounting to certainty that public revenues would be used only for public ends, and the canon of economy was rigorously followed in practice. Large scale industries were organized, private enterprise was given tax concessions and full scope to play its part in the concerted productive effort and labour not only received a square deal but also opportunities to raise the level of production and make original contributions to improving the technique and reducing the cost. Contributions in labour had a significant place of their own in this economy and when all—even the highest did their bit, they became real 'labour of love'—and an important source of capital formation.

It is not possible to write at greater length on the means and ends of the economy developed and operated in these areas. It is, however, worth while repeating that it not only introduced order in what was otherwise chaos, sustained war effort, saved the people from ruin and degradation and gave them a stake in the future; but it also provided a working model of great utility for the economy which is now being forged and developed and has in the seven short years made it possible for it to move forward on its own power and with an accelerating momentum. The old economy

condemned itself completely by its miserable failure; the new came into operation with the most spectacular realized achievements to its credit—spectacular not at all in its material gains but in the moving spirit of the pioneers who struck a new path and are following it with steadfast courage and penetrating insight. It was necessary to include, even this short account of their contribution in the description of the pre-revolutionary economy of China for they (i.e. the pioneers) gave the latter the blows which finally shattered it and also the means by which its destruction became a process of its self-redemption. This is an essential part of the background needed for understanding the underlying principles, the operative forces, the outcome and the outlook of the new economy in the making. The latter now can be described and, as far as possible, explained in its conception and working in a sequential order.

### CHAPTER III

## THE NEW ECONOMY—AN INTEGRAL VIEW

THE NEW economy of China being in the process of rapid development, it is necessary to form, as far as possible, a general view of the economy as a whole and understand its most salient features. This economy, to borrow the words of Karl Marx, is in every respect, economically, morally and intellectually stamped with the birth marks of the old society from whose womb it has emerged. An economy shattered by war, rendered derelict by a corrupt, inept and exceedingly short-sighted regime and in a state of disintegration owing to the breakdown of all authority, social standards and the confidence of the people in the regime and, what was even worse, in themselves had first to be rehabilitated before it could be transformed. The establishment of law and order, the suppression of anarchical elements which had come to the fore during the progressive demoralization of the old regime and the elimination of the remnants of the latter were essential pre-conditions of the restoration of the health and re-cuperative power to the economy. The conditions were brought into being with expedition, efficiency and ease, which, as is well known, surprised even the most adverse critics of the men at the helm of the new state and created an atmosphere in which the resilience of the peoples, who, through ages of sufferings, had acquired the art of re-building naturally by clearing the debris of the collapsed system, could be brought into play and made to focus round the centres of the new life all over the country. The fact that the men who came to power, were men with a new faith and new vision, which had been tested, confirmed and given a large fund of rich experience through a most fiery ordeal, made the process of recovery

also a process of creation for there was no possibility of recovery merely through restoration, the old economy having been completely disrupted and discredited. The period of rehabilitation was therefore primarily a period of innovations, or bringing into operation new forms and new social principles and of creating among the people new confidence and hope in the future in an entirely new economic and social framework. Since 1953 the first five year plan of construction and development is being implemented and its avowed object is transformation, step by step of the economy into a socialist economy. It is expected that it would take nearly fifteen years before a fully developed socialist economy can be brought into operation; but foundations of the latter were laid immediately after the establishment of the new regime, and it was made clear that socialism was the destination of the new economy and all measures of re-habilitation were animated and informed by that spirit. "The ultimate perspective of the Chinese revolution is not capitalism but socialism and communism." These words were written by Mao Tse-tung in 1939 when the grim struggle against the Japanese was being carried on against great odds and the future was so very uncertain. This faith not only sustained Mao Tse-tung and the millions who followed him in those arduous years, but it also enabled them to create institutions and instruments through which the masses were mobilized and in his own words, the latter became wall of bronze and iron, which no force could break down, absolutely none. The goal and the technique were both, as a matter of fact, clearly conceived and followed much earlier. In 1934 when Mao Tse-tung was still operating in a limited area in South East—in the Fukien-Ching-kiang-Kiangsi border area—he enunciated his economic policy in the following words "The principle governing our economic policy is to proceed with all kinds of economic construction possible as well as essential—and at the same time do our best to improve the peoples' living conditions, to consolidate the economic alliance of workers and peasants, to ensure the hegemony of the proletariat over the peasantry and to strive for the hegemony of state enterprises



over private enterprises so as to create the pre-requisite for future development into socialism."<sup>1</sup> His economic policy in Border Region in North-West and the liberated areas behind the Japanese lines remained in substance the same during the war and post-war years; and he relied mainly upon the 'enthusiastic support of the masses' and socialism as the destination and inspiration of all strategy of war and peace during these years of hard struggle and many vicissitudes. Since 1949 economic policy, during the phase of rehabilitation and development, has remained essentially the same and the battles of peace and the Korean war have been won by alliance of workers and peasants, by increasing hegemony of state over private enterprise and by making socialism the guiding star of their aspiration, efforts and achievements. China has learnt by the hardest way that socialism is their only way out of the past and its starvation, misery, frustration and large-scale exploitation and to a future of peace, progress, prosperity and assured social justice for all. The new economy still bears the imprints of the old economy out of which it has emerged, and it will take decades of hard work, competent guidance, pliable thought and action under conditions of great complexity and rapid change and growing creative initiative and enthusiasm of the masses to realize in full the possibilities of the new economy and to eliminate completely the survivals of the old. It is, however, quite clear that the direction in which the Chinese people have to travel, the road which they have to take, the means which they have to adopt and the ends which they have to achieve are vividly known to their leaders, this knowledge is becoming more and more pervasive and the premises of the new policy are enriched empirically and acquiring the strength of a working faith which has already produced very convincing results. The economy has still to take shape in its entirety, its mechanism of thought and practice has yet to be worked out and made operative, and men's minds have yet to be fully adjusted to its new standards of motives and behaviour; but its outlines

<sup>1</sup> *Selected Works of Mao Tse-tung*, Vol. I, p. 141.

are clear, the measures by which it is to replace fully the old economy have been properly conceived and put into practice and the subjective conditions needed for its realization have in a large measure been created. The economy is already a good working proposition and is moving forward with its own momentum.

The primary conditions of the successful elimination of the old economy, as it was long ago realized by the men now in power, were the abolition of feudalism and the complete route of imperialism in China for feudalism and imperialism were known to be mutually interdependent and had to be fought and conquered as one enemy. Imperialism was completely overcome when the Kuomintang regime was finally overthrown. Defeat of the latter was also the end of imperialism in China, for it had established itself, had grown and acquired what was truly a strangle hold on the Chinese economy because the old economy and policy, owing to their being effete and having lost all capacity of defensive action against overt and covert attacks of hostile forces, were a very good soil for the growth of parasitical and aggressive organisms from the West and Japan. Foreign investments, settlements in cities like Shanghai, Canton, Hankow and Tientsin, foreign trading and banking establishments with their Chinese agents and wide ramifications and of course, the sanctions which, in spite of the abolition of unequal treaties, the Western powers were in position to operate from within and without, were before 1949 all parts of imperial network and their activities were closely interwoven with those of the most reactionary elements in the Chinese economy and polity. The overthrow of the latter meant also the end of all foreign penetration and exploitation of the Chinese economy. The new economy is fully autonomous, all strategic points are completely under the control of the new state, private foreign investments have been acquired or owing to the defeat of Japan and exodus of the highly placed Chinese who combined political power with accumulation of enormous wealth—bureaucratic capitalism—and were subservient to foreign interests, have lapsed to the state, are practically non-existent, and can

have no future of whatsoever in the development of the new economy. Now imperialism is ceasing to be territorial, and all over the world is assuming new forms through reciprocity treaties, foreign technical and economic aid and extended scope for foreign investments in countries whose sovereignty is, in practice, subject to serious limitations. In China old imperialism is dead and the climate is fatal to the growth of new imperialism. International economic relations of China are now largely, though not completely, limited to trade with and technical and other assistances from the Soviet Union and the associated countries. It may be hoped with the improvement in the general international situation the position would be materially altered and China would play her full part not only in the United Nations but also in the world economy. The new relations, however, it can well be assumed, would really be on the basis of equality and mutual benefit and function in the framework of a world community, in which imperialism, old and new, would be progressively eliminated. The Chinese economy would, with its increasing strength, efficiency and scope, play a significant part in the growth of a more co-operative world economy. That would, of course, depend partly upon factors over which China would have no control, but the fact China has attained complete economic sovereignty and is in a position to maintain and defend it, can be taken to be a healthy economic factor in the world situation and, of course, a great safeguard of the development of her own economy on a sound and fully autonomous basis.

Land reform is known to be the basis on which the new economy is being built. With more than 80 p.c. of the population living in rural areas, the supreme importance of the agrarian changes admits of no difference of opinion. The latter have meant that landlordism as an economic institution has been abolished, rental payments, as a category of income, have been eliminated, land, cattle, houses, grain and furniture have been re-distributed, purchasing power of the agriculturist has been largely increased and the village economy has been placed on a democratic basis, i.e. in the village affairs the voice of the rural masses i.e. the erst-

while poor—the landless labourers and the small peasants—is decisive and not only the ex-landlords but also the rich peasants have power in the village economy and can have share in the administration of the village community only if they can win the confidence of the majority and prove their bona fides in action. Confiscation of land etc. has meant allocation of nearly 40 p.c. of the cultivated area to the formerly submerged classes, who have not only been given land, draught cattle and houses but also incentives to increase production, re-organize the community life and think more and more in terms of not only rural but also national economy. This change is profound because it alters completely the economic basis of rural economy, puts an end to the supremacy of an absolutely functionless class who not only lived on the labour of the vast majority of the village people but exercised an oppressive power over them and undermined their will to have a life of dignity or self-respect. Most of the latter lived in a state of social and mental stupor and mobilization of the masses really meant arousing them to the awareness of a new destiny, understanding their role in the making of new China and tapping their vast reserves for the betterment of their own conditions, and the development of the economic and human resources of the country. This change has involved radical eradication of the age-old evils and the cessation of the oppression of centuries and could not have been carried out without excesses in a significant measure; but the facts of the case point to the conclusion that taking into account the magnitude and fundamental importance of the change and the necessity of carrying it out with the intelligent and whole-hearted co-operation of the masses, who were its chief beneficiary and main instrument, this change has been consummated without wanton disregard of human values. Vast majority of the landlords have been assimilated in the new rural economy and given an opportunity of 'reforming themselves through labour' i.e. by accepting the new social value that all must work honestly for a living. They are also being given a chance of re-instating themselves in the village community by assuming its obligations. This pro-

cess is necessarily slow owing to re-suscitation being based upon the growth of mutual trust; but in course of time when the new generations grow up, a new integrity would, it may be expected, be realized in principle and practice in the working of the village community and the old antagonisms have only historical significance. Drastic action, involving even death penalty in a number of cases, has been taken against the landlords, whose record was exceptionally cruel or barbarous or who continued to adopt a persistently hostile attitude to the new social changes. The new agrarian economy has, however, been introduced and consolidated almost all over the country, including the areas in which the national minorities live, has thrown up its own leaders at the basic level and is acquiring its own code of mental processes, emotional reactions and social behaviour. The agrarian changes have meant to use the common phrase, 'the release of new energy and creative initiative of the masses'—i.e. the people in general are fully aware that the responsibility for developing the new system and achieving results which were impossible under the old system, is entirely theirs and they can and have to rise to the need of the new situation. The rich peasants have, over very large areas, been left in possession of their properties but are not in a position to rent out land or combine money-lending or trading with their agricultural functions; and it has been made quite clear to them that they have no permanent place in the new scheme of things, as a class they are on sufferance and would before long be absorbed in the co-operative village economy which is being built up with great earnestness and speed. The keynote of the change is the transfer of power from a small rural oligarchy, who were all in all in economic, social and political life of the village community and used their power to the grievous detriment of the interests of the people, to the rural masses who were really down-trodden and had no hope of rising above their submerged position. The newly enfranchised masses have land, technical and financial resources made available to them by the state but what is far more important, are in power in the political and economic administra-

tion of the village and are exercising it in a fully democratic manner i.e. consent of and control by the masses are the basis of all decisions and the means through which the people are activated and raised to a high level of creative effort. The system, as a whole, may not be democratic in the sense in which the word is understood in the countries with parliamentary system of government; but at the basic level the agrarian changes have been carried out primarily by bringing the masses into action and are being developed by making them the makers of their own future. The significance of the transfer of power from the very few to the many at the village level needs to be clearly appreciated in order to understand the mainspring of the new economy. This transfer is the real revolution from below, and without it all the rest would have been hardly of any avail. This is also the primary source of driving power for the revolution as a whole. It is by drawing upon the latter that the old regime, in spite of massive foreign support, was overthrown and its complete rottenness exposed to the view. The change is being sustained and accelerated by the same process. It is the great dynamo of energy which is carrying this new economy forward, at the rate which it has set up and maintained, to its chosen future.

The leaders of the village community in most cases are old hired hands—the landless labourers—or small peasants. The women are, more and more, coming to the fore and are being given positions of authority in government, co-operatives and mass organizations; and their newly won equality is being realized not only through marital relations based upon free choice but also through increasing participation in the many-sided life of the village community. The new leaders even at the higher levels are mostly derived from these submerged classes and are giving an excellent account of themselves; but it is at the village level that their role is of specially crucial importance and is producing such fine results. The primary qualifications for discharging this role are social earnestness, clear understanding of the essential tasks and the capacity to enlist voluntary support and enthusiasm of the masses for the development of the rural

community. These leaders are, however, expected to raise their technical and cultural level and know their limitations due mostly to their deprivations in the past. They—the cadres—are being trained for these functions in very large numbers and have to make this training a continuous and a widening process. They, however, continue to belong to the village community, to earn their living through labour and have to maintain their position by submitting themselves to re-election every two years. 'Commandism', particularly at the village level, is regarded as a serious transgression of the new code, i.e. any tendency to dictate to the people instead of leading them by winning their confidence and consent becomes an occasion of serious censure and disapprobation and persistence in it a disqualification for a position of trust in the villages. In the rural economy bureaucracy occupies a subsidiary role and functions mostly in a consultative capacity. The people at the village level, particularly in economic sphere, manage their own affairs and are self-governing in a very real sense of the word. Their new leaders have emerged from below, are acquiring specific qualifications for their new duties and continue, functionally and organically, to be an integral part of the village community. The village gentry was the symbol, the instrument and the incarnation at that level of the old economy. It has completely disappeared and no new gentry has taken its place. The village has thus become a real democracy—a new democracy which for practical reasons is partly exclusive but is nevertheless an expression of the aspiration, wishes and vital needs of the people.

Agriculture being the mainstay of the rural community has to be improved greatly if China is to fulfill her destiny. Every effort is being made to bring home to the people the inadequacy of agriculture, as it is to-day, for building up socialism and making China a strong country with a progressive economy. Agrarian reform made China a country of peasants with small and scattered holdings who were using mostly traditional technique and implements which, with discrimination, have now to be replaced by new technique and greatly improved implements. Small peasant

economy is regarded as incompatible with the development of a socialist economy, and its progressive supersession first by co-operative agriculture with the preservation of property rights in land and later by collective agriculture with private property rights completely eliminated is considered essential for the attainment of socialism in China. Mechanization of agriculture is also held as a goal to be kept in view after a high level of development has been attained and is being practised on many large state farms. For the present, however, improvement of agriculture is sought mainly through more intensive cultivation, use of the improved varieties of seeds, fertilizers and better implements, control of insect pests, proper rotation of crops, soil conservation, afforestation, reclamation of land and great extension of irrigation through construction of major and minor works. A network of stations for imparting knowledge of higher farming technique and providing a vital link between scientific research and practical agriculture has been established and is being extended. Faith in science as the key to the future is being rapidly inculcated and all traditional hindrances to the application of modern knowledge to the art of agriculture are being removed and have, in the new ferment, largely disappeared. Increase of production—very rapid increase of production—in agriculture is regarded one of the most important central tasks of the new economy. Without it the country, it is very vividly appreciated, cannot realize its object of rapid industrialization, provide raw materials, have capital resources adequate to the gigantic task of socialist transformation or bringing about even the irreducible minimum of improvements in the living conditions of the people in the transitional stage of the new economy which cannot but be a period of great stress and strain. Already improvement in agricultural production has been considerable, but there is scope for a lot more and its realization is taken to be a test and measure of the success of the new agrarian economy. Modern agriculture in China, it is confidently believed, would be more than equal to the tasks which it has set itself for it is fervently held that liberation of the rural masses has created an irresistible



force of mighty power and the latter cannot be found wanting.

As the next step in the modernization of agriculture and its development on socialist lines the different types of co-operatives are taken to be the most promising method of transformation. Among them the most important are the co-operative marketing and supply societies which already cover nearly the entire countryside and have become a very important factor in rural economy. They supply to the agriculturists the goods required for production and consumption at prices which are about the same all over the country and have remained, within narrow limits, stable in the last few years. Nearly two hundred thousand stores of this organizations also purchase the surplus food grains and industrial raw materials for the state and establish a channel through which parity of prices between agricultural and non-agricultural commodities is maintained. These stores are not merely commercial centres, but they are also means through which economic policy of the state is implemented in the rural sectors, and developments in the latter are co-ordinated, as far as possible, with the general economic policy of the country. These co-operative societies have also productive enterprises of their own and are important in processing industries. Co-operative credit societies are also being organized on a large scale and are intended to play an important role in the development of agriculture. From the standpoint of the future, however, productive co-operatives in agriculture are the most important development and are being developed very rapidly; their number has increased by more than five times in 1954 and by 1957 it is planned that the total area under cultivation would be covered by the farming co-operatives. These co-operatives in their first stage of development combined private ownership of land with unified cultivation and payments were made only partly according to the amount and quality of work done. Profits of these co-operatives were also partly distributed according to the contributions of the standard units of land cattle and implements to the common

pool, but these were intended to be of diminishing importance in the working of these co-operatives until the goal of distribution of profits purely on the basis of work was reached. It is expected that this goal would in fact be almost fully attained by the end of the first Five Year Plan—and probably earlier. The mutual aid teams preceded the development of the co-operatives and were meant to be embryonic units of socialism. They were training grounds of co-operation, and in the more developed form provided scope for crop-planning and pooling of resources within certain limits, and it is because this form of co-operative effort was already widely prevalent in agriculture that really amazing rate of development of the farming co-operatives has in fact been achieved. Farming co-operatives are meant to be organized on a voluntary basis; and excessive zeal in organising them, until the farmers are fully prepared to work and live up to their requirements, is deprecated. It may be hoped that this condition has been actually fulfilled in practice. Rationalization of agriculture on socialist lines is unavoidable, but as the experience of a number of countries already shows, the pace cannot be forced without producing unbearable stresses in the economy. Assuming that in China this temptation has been and would be successfully resisted, the development of co-operation in trade, credit and production in the rural economy indicates a line of progress which would take this country far on the road to socialism.

Industrialization of the country is being rapidly proceeded with and the state is playing the leading, really predominant, role in this development. Investment funds are being provided mostly from the revenue budgets and nearly nine-tenths of these resources are being utilized for building up heavy industries. The latter are held to be essential for laying the foundations of a sound socialist economy and for the defence of the country. It is realized that this would necessarily involve a large measure of self-denial on the part of the people and also that it would be undesirable to impose more severe strain upon them than they can bear without undue hardship. By regulating production and dis-

tribution of food grains and other essential consumers' goods and maintaining the stability of prices it is planned to increase industrial production, particularly of goods required for construction, very rapidly and make the country self-sufficient in respect of many important goods without inflicting serious hardship on the people. Shortage of goods is unavoidable in a fast expanding economy when long term objectives are being given higher priority; and it requires a high degree of skill and a large measure of control to steer the economy safely through the dangers inherent in the process. The experience so far acquired in bringing this country to the existing level of development justifies optimism in this regard with regard to the future. It is, however, essential that the risk of presuming too much, particularly in an economy in which price mechanism cannot fully record the changes in the relative substantial position, is consciously and continuously guarded against. China having embarked upon the immense undertaking of industrializing her vast area and enormous population is bound in the measure in which she succeeds, to exercise a decisive influence in world economy and her schemes of industrialization are on that account of great potential importance not only to herself but to the world as a whole.

The consumers' goods industries have also been provided in the planned industrial expansion of the country, though as stated above, they have been assigned a secondary position in the scheme. Through increasing the power of direction, regulation and control over private enterprises, through overwhelming importance of jointly operated undertakings and also through expanding production of state enterprises it is expected that a fair distribution of the available goods would be secured and the occurrence of acute shortages prevented. A large degree of reliance is being placed upon the development of handicrafts, rural industries and small enterprises to increase the supply of the commodities of every-day use for a growing population with a rising purchasing power; and serious efforts are being made to ensure that they are placed in a position to meet the increasing needs of the people with a large degree

of success. The planners in China have no special preference for handicrafts as such and the use of power for mass production on a large scale fills them with enthusiasm and implies fulfilment of their faith in coming freedom through the appreciation of this necessity. They, however, realise that the allocation of the available capital resources largely for the development of heavy industries and the urgent need for increasing the supply of the consumers' goods makes it necessary in the next plan and probably thereafter to make the most of productive power represented by the millions of craftsmen in the towns and the villages and give them full facilities to supply the needs of the expanding demands in an organized and well-regulated manner. As consumers' goods produced by factories and handicrafts are being marketed mainly through the state co-operative distributive agencies, it is possible to have a price schedule and a marketing programme which need raise no problems of unfair competition between factory-made goods and goods produced by handicrafts, underpayment of the craftsmen or unduly high costs of production of the latter. An integrated approach to the problem of costs, prices and supply should make it possible for them to reduce the cost of transport and distribution, to improve the efficiency of production of handicrafts and thereby reduce their cost and, making due allowance for social costs, to have a unified programme of production without any serious inherent contradictions of its own. On a realistic basis the development of rural industries on a subsidiary or whole time basis would also be needed to co-ordinate it with the programme of rapid development of farming co-operatives which would necessarily release surplus labour from agriculture and raise the problem of finding alternative employment for it. Improvement of technique, utilization of power and introduction of labour saving devices to the greatest extent are included in the programme of development of handicrafts in China and as a matter of fact held essential for its success, and therefore there is no question of freezing technique at a particular level. Handicraft production is expected to have a significant place in the planned expansion of industrial production

and it is intended to make the industrial co-operative the principle instrument of their development. By assuring the supply of raw materials at economic prices, by guaranteeing markets for their products at fair prices, by giving technical and financial assistance liberally and at concession rates and by educating, training, enthusing and organizing the craftsmen it is assumed that the handicrafts would not only be able to hold their own in the developing economy but also contribute materially through the co-operatives to the growth of socialism in the country. Practical insight and ability of the policy makers in China is clearly indicated by the shift in emphasis which has taken place in regard to the handicrafts in the last four years. They are not looking too far ahead; but it may be that owing to special conditions of the Chinese economy and possibly also because of the experience acquired in the transition period, small and cottage industries would have a place of greater importance and more fundamental significance than they have in the industrial system of the Soviet Union. Apart from the speculation, it is clear that in the current and the next two or three five-year plans of development, these industries have to be assigned a place of their own in regard to the supply of the consumers' goods and their development would be a pointer to what can be done with regard to them in the ultimate shape of things to come.

The predominant position of the state in the new economy is, in a measure, due to its being a major factor in the industrialization of the country. The state, however, also occupies what are called commanding heights from which it can issue directives and determine all basic policies of the entire economy. The state and co-operative trading in the internal and external markets is of decisive importance in regard to production, distribution and price structure of commodities; and it is impossible for private interests to force upon the working of the economy deviations from the essentials of the public policy. The state also through the realisation of land tax in kind and the policy of procurement of food grains controls a large proportion of the marketable surplus of their essential commodities and

brings about their distribution according to the needs of the community and objectives of public policy, prevents private speculations in these commodities and takes anticipatory measures against unplanned movements of goods and their prices. The state also is the dominant factor in the credit and banking structure of the country, allocates funds and credit in accordance with the programme of development, and being also the supreme currency authority achieves a large degree of harmony between credit and currency policies and can take direct preventive measures against their equilibrium being disturbed by the intrusion of the unwanted forces. The state is in a position to steer the economy as a whole and regulate, and in a large measure, determine the direction of its movement and also the general framework in which it operates. Though private enterprise has a limited place in the working of the Chinese economy, its unity of purpose, its integrated working and ascendancy of state and co-operative enterprise give the public sector a position of unquestioned supremacy and make it the determining factor of the growth and development of the economy as a whole.

The mass organizations like trade unions, women's federation, youth league and particularly the communist party have a position of supreme importance in the new economy of China. The communist party is, of course, the prime mover of these organizations as of the new economy as a whole. It is literally true that without it there would have been no new China; and now all major decisions are first taken by the communist party before they are submitted to and approved by the Central cabinet or the National People's Congress. The communist party also provides the core of public administration, its members are in leading positions in all economic institutions and organizations and are charged with the duty of bringing and keeping them in line with the economic policy of the communist party. This leads to a large degree of centralization in policy-making, management and application in practice of the general principles; and yet under the conditions which existed and still exist in China it is difficult to conceive how

the economy could have had the impetus or momentum which it is known to have possessed without the devoted work, competent guidance and the gifts of leadership provided by the members of the communist party. Its members are subject to rigid internal discipline, receive thorough training for their work and are expected to be equal to all new tasks and situations. They also have faults of their qualities; but even with these faults they are the moving force of new economy at all levels and their obligations are much greater than their privileges. A large number of them have been steeled in the hard struggle through which they, as a party, have attained the present position; and even now any tendency towards self-indulgence or inclination to rest on their oars is resolutely repressed by the internal checks of the party. Without them the new economy would be without its rudder for they, through their understanding, ability, experience and dedication to their appointed tasks, are the leaders of the economy and its model workers at all levels, set its course and follow it with diligence, insight and real competence. A system which must necessarily, in its initial stages and in the course of development and the progress towards its destination, draw heavily upon the qualities of self-negation, creative insight, practical ability and the capacity for growth from within of its leaders for its emergence, operative efficiency and continuous development, cannot do without a large band of 'illuminated and consecrated workers' who live for the community and express its urges and aspirations in their personal life. The communist party has and could not but have all the limitations of a large group of men and women who, in response to a call, banded themselves for arduous tasks and with a clear, well-defined faith of their own. It may be hoped with greater experience, confidence and sense of security for the system to which they are devoted, they would outgrow these limitations and evolve the technique of functioning with due regard for a spirit of fellowship and broad human understanding without any loss of drive or efficiency when the economy attains higher levels of development and is sure of its future. A socialist economy in the making must,

however, have its new Samurai in the real Wellsian sense, and the communist party in China has filled that role with ability and distinction.

The other mass organisations referred to above are also led by the communist party, but they have specific functions of their own, have their own constitution, procedure and the mode of working. In the operation of the economy their most important function is to promote a wide understanding of its underlying principles, to be vigilant that in their own particular spheres they are duly observed in letter and spirit and to ensure that their members do their best to contribute as much as possible to the successful completion of the tasks assigned to their own particular unit, institution or organization. These organizations taken together provide the real steam—the driving power—without which the economy could not have been brought into operation or continue to function on an increasingly expansive basis. For understanding of the economy in its essential features and its operative principles it is necessary to know how these organizations work, produce results and keep the economy on the rails.

The economy, being revolutionary in its origin, operation and objectives has to be worked and developed by the men who believe in its social purpose and attach the highest importance to its realization. The communist party possesses and provides the integrity of theory and practice which are indispensable for a revolutionary economy; but it is also necessary that there should be a wide diffusion of the main concepts of the theory of the economy and their bearing upon the tasks actually in hand. This means that a mass drive for education or re-education—re-orientation, to use the word which is current in China—should be introduced and sustained to mould or re-mould men's *minds* to suit the needs of the new economy in the process of rapid development. Mass drives have their inherent limitations, and if conducted without understanding or sense of humour, can lead to mass hypocrisy or large scale conformity to the ideas imposed from above. Mass drives have been and are in progress in China, and in some measures, invite the charge



of indoctrination which has so widely been brought against her. Some correctives against excesses of zeal have been provided and are being used as balancing factors, but mass suggestions and their high pressure impacts are a necessary element in all mass drives and cannot be entirely avoided. Without these drives, however, mass support and participation for the tasks of new economy could not have been secured; and if the leaders are not only sincere but realize the complexity of the process through which men can take to and absorb new ideas and work consciously against the 'yes-men' mentality becoming a substitute for an intelligent understanding and appreciation of the issues at stake, there is a reasonable chance of mass drives being really beneficial in spite of their inherent limitations. For the vast majority of the masses for whom the revolution has opened new vistas and also for most of the intellectuals who can now work with a purpose and with a prospect of their work being really fruitful, the 'ideological' drives, by and large, do not, in spite of the limitations inherent in such a massive effort, involve inhibition of mental development of the people but the removal of barrier to it. A large number of cases of mal-adjustment during a period of revolutionary change are inevitable. Minds already set cannot be re-set easily even if a revolution requires the change. The necessity of creating a new climate of public opinion and of imparting to the people a sense of urgency and knowledge of the vital issues for accomplishing the tasks of the revolution has to be appreciated for a correct and objective judgment on these campaigns for mass education or re-education of the people. These campaigns, it may be repeated, are necessary and desirable for the successful operation of the new revolutionary economy and they have produced the desired results.

It is now necessary to examine the different aspects of the new economy in detail. Owing to the transitional character of the latter and to varying degrees in which the public and private elements are combined and integrated in the different sectors, it is essential to bear in mind two facts with regard to it. The first is that in its working socialist purpose is of increasing importance and is becoming

more and more effective. Secondly this result is achieved by public and co-operative ownership of the means of production of widening scope and importance, increasing control and regulation of its operation through the state having occupied strategic positions and, what is no less important, rise in what is called political consciousness of the people i.e., their growing awareness of the direction in which the economy is moving and has to move and their willingness and ability to keep pace with it or rather sustain the pace which is set for it or it acquires through its own momentum. The new economy is in a state of transformation and it require conceptual effort and imaginative insight to grasp the essentials of the economy in its entirety. Its goal has been clearly stated and defined, the stages, by which it has to be reached, have been broadly laid down but will really be determined by actual experience and the confidence which the policy makers and executors can place in the economy's capacity to move forward with all its sections in step. This position can be more clearly understood and appreciated if the facts of the economy and its underlying principles are described more fully in relation to the concrete problems which the economy is trying to face and solve. In the following chapters an attempt is made to provide the material necessary for an over-all understanding of the system and as far as possible on factual basis.

## CHAPTER IV

# LAND REFORM

"LAND TENURE will require to be reformed and the stronghold of the usurer and middleman to be broken before much can be expected in the way of technical progress.... To carry through such a policy will demand not only knowledge but a stout heart and firm hand, but it would open the door to a new era of the Chinese history. A Government which permits the exploitation of the mass of its fellow citizens on the scale depicted in these pages which follow may make a brave show, but it is digging its own grave. A Government which grapples boldly with the land question will have little to fear from foreign imperialism or domestic disorder. It will have as its ally the confidence and goodwill of half a million villages."<sup>1</sup>

The book referred to in the above quotation is a collection of source materials by Chinese authors on the agrarian situation and was published in 1938. Eleven years later, a Government with a stout heart and firm hand came to power and grappled boldly with land question. The result is that it is not only firmly in the saddle and has nothing to fear from imperialism or civil disorder, but has also opened the door to a new era in Chinese history, made rapid technical progress possible and has achieved the result because it has won and maintained the confidence of 500 million peasants. The prophecy has literally come true, and, as everyone knows, the new government came to power owing to its constant and continuous allegiance to the primary interests of the peasants through over two decades of what is now called liberation struggle.

There were a number of Chinese and foreign experts who were of the opinion that the crucial problem in China

<sup>1</sup>R. H. Tawney in his *Introduction to Agrarian China*, p. xviii.

was not the elimination of the landlords but the misery of the Chinese people was due to over-population, technical ignorance and backwardness of the peasants, tiny, midget holdings, lack of marketing facilities and, of course, usury. These causes were partly responsible for the grave situation which called urgently for immediate remedy; but it was the social framework in the villages, which inhibited all progress and caused untold suffering, that had to be altered completely before the Chinese people could, embark upon the great adventure of shaping a new future. The Government which collapsed in 1949 not only permitted the exploitation of the masses, but was its most powerful instrument. It did make a brave show for a decade after 1927 and again after 1945, but it dug its own grave for it represented the interests which were really an incubus on the Chinese economy and in the words of R. H. Tawney, all other reforms were 'written in water', because it was impossible for it to grapple boldly with the agrarian problem.

The point, which has already been referred to earlier, but needs to be stressed again, is that the landlord not only owned a very large proportion of the cultivated land, and rack-rented the peasants, and did nothing for agriculture, but also exercised in practice civil and military authority of the State, was a local despot whose word was law in the village and there was no protection against the arbitrary use of his economic and political power. He also was the money-lender and charged usurious rates and combined not unoften these functions with that of the merchant who took full advantage of the dire need and helplessness of the peasant and speculated at his expense and to his undoing. The agrarian reform has, therefore, not only put an end to rack-renting and other onerous exactions of the landlords in cash and kind, but has really broken the stranglehold of the middleman, the usurer and the local tyrants and dissipated the pall of craven fear under which the peasants had to live for centuries and which had become much thicker and more oppressive during the war and post-war years. It is not possible owing to the limitation of space to give an account in real terms of the extreme misery in which the peasants

lived under the old dispensation. The available literature on the subject and more than that personal visit to the villages in different parts of China are more than convincing for bringing home the fact that the agrarian reform in China has meant for the peasant true liberation from many scourges of which the most odious was the vicious agrarian oligarchy. Release of new productive forces has been stated as the most important objective of land-reform. The objective has been realized in practice and a rapid pace of progress and development in agricultural production has been set up. The end of the old agrarian economy was, however, indispensable for advance in any direction, political, social, industrial, technical, scientific and cultural, and has been the door to, to use Tawney's words again, the new era in Chinese history. In economic sphere, it is hardly necessary to say, the agrarian reform has been of fundamental importance; but social revolution in China has become a reality for a vast majority of her population because they know it from their immediate experience that the old order, which they knew to be the cause of their endless sorrow, has been definitely and finally abolished. The new social order has to win their allegiance by positive beneficial measures, and is doing so in a large measure; but by completely ending the old order in the villages an enormous fund of good-will has been created and the forces, which repressed the development of personality, have been completely routed; the new social order cannot only confidently count upon the loyalty of the masses but is being mainly built through their creative initiative. They are not only the principal beneficiary of the new social economy, but also its most important builders.

It is not possible to describe the old agrarian framework in detail. The conditions varied widely from province to province and even district to district. In the South and South-West and near the large cities like Shanghai and Canton, the concentration of land ownership was much greater and the incidence of rents much higher than in the North, North-East and North-West; but during the war and post-war years and under the pressure of inflation, the conditions of the peasants became much worse and there was

very considerable increase in the concentration of the ownership of land. Even before the war the process had been at work owing to large public domain having been appropriated through various illicit means, increasing indebtedness of the peasants, imposition of levies and requisitions for war purposes, commercialization of agriculture and investment by commercial and professional classes of their savings in the acquisition of landed properties which had a high prestige value in the old social economy. During the war and post-war period the weak were at a far greater disadvantage because of the administrative authority having been very much weakened, the exigencies of war and the internal struggle having produced conditions of great political instability and the inflationary pressure having upset all calculations. The result, of course, was that the rich became richer and, the poor peasants were deprived of their property by various devious means; and the proportion of land in the possession of the landlord became even higher. In North-East and North-West where landlords were, relatively speaking, less important, they engrossed a large proportion of land, and in a village near Mukden in Manchuria and in another near Sian in Shensi the proportion of land held by the landlords was reported, during the visits of the author to these villages, to be 90.8 p.c. and 50 p.c. respectively, before the land-reform. The degree of concentration, as stated above, varied in different parts of the country, but generally speaking, landlords and rich peasants, who accounted for 10 p.c. of the population owned 60 to 70 p.c. of the cultivated area, the middle peasants who were nearly 20 p.c. of the population owned about the same proportion of the land, and 10 to 20 p.c. of the cultivated land was owned by 70 p.c. of the poor or 'land short' peasants—i.e., whose holdings were so small that they could not even make a meagre living on the produce of their landed property, had to supplement their income by labour as far as they could and stint themselves severely most of the time.

Cash rents were prevalent in some parts and custom gave a certain degree of fixity of tenure; but share-cropping on a very precarious basis was the rule and 50 to 60 p.c.

of the gross produce and in some cases a fixed quantity of grain, irrespective of the actual harvest, had to be given to the landlords who rarely if ever, contributed anything to the cost of cultivation. The tenant had no protection against over-assessment of his contribution, and after he had paid the latter and the levies of all kinds, his share seldom exceeded 20 to 25 p.c. of the produce and was not unoften less. That he lived a wretched life, his family was very poorly fed, clothed and housed and he had no reserves to fall back upon when the elements inflicted great calamities, as they frequently did in some parts, were the inevitable consequences of the extreme exploitation and oppression to which he, as a rule, was subjected. As a result of the agrarian reform nearly 110 million acres, or about 40 p.c. of the total cultivated area were re-distributed among the poor and the landless peasants and 30 million tons of foodgrains which they, roughly speaking, had previously to hand over to the landlords, were made available for their own use. The latter, i.e. 30 million tons of foodgrain, was over 20 p.c. of the pre-war agricultural production in the very best year and their transfer to the peasants provided the basis for the increase in prosperity and the purchasing power of the peasants. For them the end of the exactions and the state of extreme insecurity and fear in which they constantly lived, and the acquisition of more than 20 p.c. of the annual harvest were very heartening fruits of the land-reform and brought to them, as stated already, a sense of real emancipation from the state of great hardship and deprivation to which they had been accustomed for ages. They thereby built, to use Mao Tse-tung's words again, a wall of bronze and have made China a country without fear in her international relations and internal administration.

Land reform was carried out in the North in 'the old liberated' areas in 1948 and 1949, and from 1950 to 1953, in the rest of the Chinese mainland. In Tibet and some of the outlying parts of China it has yet to be introduced, but even in most of the areas inhabited by the minorities land-reform has been largely completed. Three hundred million peasants have actually benefitted by the re-distribution of land

and the whole of the countryside has been transformed. Policy decisions were taken by the Government and were based upon the views which had been formulated during the years of the struggle and upon the experience gained through it. In the actual execution of the policy, however, the masses have participated with zeal and understanding, and great care has been taken to keep the progress of the reform within the limit set by the change in the social outlook of the masses. Land-reform has been implemented on the assumption that it would involve a strenuous struggle against the classes—the landlords and the rich peasants—who had to be dispossessed and assimilated and counter-struggle by them was anticipated and provided against. The reform itself was made a process of self-discovery for the people, a means through which they were organized and raised to a higher level of understanding of the social issues, and also a method by which virtues of co-operative action were brought home to them and also the need for vigilance against the disruptive elements. Land-reform was not put through as a high-level decision which had to be acquiesced in and obedience to it could not be avoided because it was backed by the might of the state. It was known that the policy decisions had been taken by Government and any resistance to them would be of no avail because the Government would not tolerate it in the least. This was the framework of the reform, but not its real substance. The reform was made the vehicle of realization that the people's day had come and they had to take the destiny in their own hands. Their erstwhile masters had to be 'sown up' i.e. exposed to themselves and the masses with whom they had maintained such inhuman relations as what they were i.e. the parasites who lived in ease and often in coarse and vulgar luxury on the labour of their tenants whom they reduced to incredible poverty and otherwise treated, in general, with ruthless disregard of their interests and well-being, and also as the tyrants who had served an oppressive system and which in its turn functioned as the guardian of their position, power and privileges. A reform of this magnitude and with its avowed purpose could not



only be not carried out without mass enthusiasm but also without arousing mass antipathies, i.e., awakening the desire for revenge and realizing satisfaction from having at least in part paid off the old scores. Such great changes could not have been introduced without stirring up social antagonisms. In China class-struggle being the core of the communists' approach to their tasks, it was inevitable that land-reform should make the minority, who had to be deprived of their property and power, an object of great revulsion of feelings and therefore social odium in some cases in exaggerated forms. It was, however, clearly understood that in the execution of the reform distinction had to be made between the landlords, as a class which had to be 'liquidated' and the landlords as individuals who had to be reformed i.e. had to be given the attitudes, habits and technique needed for becoming a part of the new social context. There was no quarter given to those who wanted to organize resistance or undermine the solidarity of the peasants without which the reform could not have been carried out. As already stated, the landlords, who were proved to have an exceptionally black record of outrageous conduct, were severely dealt with and in quite a number of cases executed. This was regarded not only as a necessary punitive action, but also indispensable for removing as completely as possible the habit of fear in thought and behaviour deeply embedded, through the usage of ages, in the lowest layers of the minds of the people. On the whole, however, making allowance for the considerations referred to above, the reform was completed with speed and the intelligent co-operation of the masses and without letting loose any furies in the Chinese countryside. New legal framework of property rights had to be provided and the old property rights, which had lost all justification from the standpoint of the community, had to be extinguished. This was, in a sense, the substance of the land-reform, but the latter was conceived and carried out not merely as a means for using the age-old land-hunger of the Chinese, as of all, peasants for revolutionary ends. It was intended to be a great creative movement both from the immediate and ultimate standpoint—its

purpose was consolidation of revolutionary gains, introduction of basic changes in the rural economy and in the process making the peasants standard-bearers and architects of the new social order. In the initial stages the proximate ends had, of course, to be given priority, but it was clearly indicated and kept in mind that land-reform was a step and only a step in the complete social transformation of the entire economy, and in the methods and manner of its implementation it had to be, and largely was, a presage and promise of the future.

For the completion of this reform over 300,000 cadres were trained and sent to the villages. They were drawn from all walks of life, but university teachers and students, and professional men, who were in sympathy with the purpose of the land-reform, and had clear understanding of its theory, played an important role. They, before going to the villages, received three to four weeks' training, were helped to acquire the proper attitude to the performance of their tasks and a grasp of the social technique needed for putting through the reform. In this course special stress was laid on the necessity of winning the confidence of the peasants, of creating a sense of fellowship with them and assisting them to find their own cadres—local leaders with initiative and insight in whom the peasants had trust and who could be counted upon to carry out land-reform and follow it up by maintaining a pace of social change appropriate to the essential purpose of the new agrarian economy. These land-reform teams were expected to learn from experience, show flexibility in thought and action required for making the necessary adjustments to local conditions and yet in essentials realize the main object of the reform. These men and women, mostly young, gave in practice a good account of themselves, lived under hard conditions to which they were not used, threw themselves into their work with full appreciation of its importance and meaning. This experience brought them into vital contact with the masses, instilled in them a respect for their native wit and confidence in their capacity to rise to the needs of the new economy.

After the completion of their assignments they went back to their own work, the richer in understanding and ability to take their place in the development of the new social system and promotion of its essential purposes.

Formation of the Peasants Association, classification of families according to their status and distribution of land were the three stages in which the land-reform was carried out in each village; but before the formation of the Peasants Association the land-reform team had to do preparatory work which was of cardinal importance for the introduction of the agrarian changes. It was essential to get into close contact with the peasants, know from them the essential facts of the agrarian situation in the villages, appraise it in relation to the objects of land reform, understand the alignment of local forces, inspire courage and confidence among the peasants, explain to them as clearly as possible in terms within their own experience the purpose of the land reform, elicit active and intelligent interest of the more earnest minded among them, discover, among the poor peasants and landless labourers, the men and women with gift for leadership, form a nucleus of the activists—the persons with social flair, drive and unblemished past; and in the light of knowledge of the facts plan out the strategy of action in the village. This preparatory work could not be finished according to a set time schedule for each village had its own special needs and potential from the standpoint of the land-reform which had to be assessed and developed with due deference to the local factors. The team was enjoined not to force the pace or impose any step for which the peasants themselves were not really prepared. Its role was to create the ferment, to let it be known that the state was sponsoring and fully supporting the changes, to remove any doubts with regard to the future of the new regime, to combat any disturbing rumours, to bring to the fore the group of persons who were in a position to assume the responsibility for initiating and realizing in full the agrarian changes, to throw upon them full responsibility but guide them in all stages so that they may have the benefit of wider experience and fuller understanding and not deviate in essential

respects from the over-all agrarian policy of the government. At each stage meetings of all the peasants had to be convened and their active consent ensured for all major decisions, for the reform had to be sustained and safeguarded by continuous vigilance and active co-operation of the peasants; and this could be done only if the decisions were understood and supported by the masses and they knew them to be fair as a whole and in each specific case. Any suspicion that in carrying out the reform the wily and the strong had gained special advantage or received more than their due share could not but impair the success of the reform or its workability. Integrity of national policy had to be preserved and yet it had to be implemented with intelligent and fervent support of the peasants in each village, and a full appreciation of local needs and conditions. This required a social craftsmanship of high order; and, according to all reports, it has in fact been realized in completion of the land-reform all over the country.

Before concrete steps could be taken to initiate the land-reform, it was essential that the landlords should be shorn of their power to inspire awe or fear. After the necessary preliminary work had been done, meeting was convened at which the landlords were arraigned by the people or rather by those who had been specially or excessively wronged by them. At these 'Accusation' meetings the excesses committed by the landlords were narrated in specific terms, proofs adduced in support of the charges, public trial held and verdicts given by the peasants as a whole. The verdicts had to be examined with reference to the supporting evidence and confirmed by the district authorities before they could be carried out; but even when the excesses were not serious and did not call for severe penal action, freedom and frankness with which the peasants could speak at these meetings and of the wrongs that they had to suffer mostly in silence and without any possibility of redress brought to them a sense of security and assurance that the old nightmare had gone and would not return. It also, of course, gave them an opportunity of working off their complexes or taking it all off their chest. All this could not but mean

that to a certain extent 'crowd' mind was brought into operation and there occurred in some cases at least a partial eclipse of reasoned judgment. It was one of the functions of the team to counsel moderation and mitigate the effects of mob mentality; and the provision for all verdicts being subject to the approval of higher authorities was also a safeguard against intemperate decisions. It would be too much to say that excesses did not occur at all or the display of mass antipathy was always kept within limits. These meetings were, however, included in the programme of land reform with due appreciation of their therapeutic value and also awareness of the risks of the mass mind running away with the good sense of the people. Land-reform, it appears from all the available information was, on the whole, carried out with proper regard for the distinction between the landlords as a class and the individual landlords; and its object, as stated above, was to liquidate the former and re-assimilate the latter in the new social system. The number of landlords ran into millions, and of these only a very small proportion had to pay for their serious sins with their lives or were required to submit themselves to a corrective treatment in detention camps specially designed for them. In this respect again possibility of even organized transgressions cannot and should not be ruled out; but, speaking generally, land-reform was meant to be a big surgical operation to remove the causes of a deep-seated social malady and mass vindictive action against the landlords, who themselves were both the victims of an evil system and instruments of its oppression, was no part of this movement. Vast majority of the old landlords are now living in the villages and making their living as peasants. Most of them are not yet qualified for participating fully in the re-organized life of the peasant and are not eligible for voting in local elections, holding offices or even holding responsible posts in the co-operatives or mass organizations. It is hoped and expected that in due course this stigma would be increasingly removed and they would have all the privileges and obligations of the members of the new society after they have, by their behaviour, earned full social reprieve. This

has not yet happened on a large scale but the growth of mass movement of agricultural co-operation has created favourable conditions for assimilation of landlords and rich peasants in the new economy.

Land-reform mainly relied upon the support of the poor peasants and landless labourers, upon alliance with the middle peasants and neutralization of the rich peasants. The landlords were thus isolated and deprived of the chance of using other sections as allies in their counter-struggle against the land-reform movement. The land-reform teams were expected to form close ties with the poor peasants and landless labourers from the very outset, so that they might tell them of "their better part and their innermost secrets;" or struggle with them "against the traitors, local despots and landlords who had oppressed and exploited them."<sup>1</sup> It is because it was known that these classes, i.e. the poor peasants and landless labourers would from the very necessity of their position throw themselves into the new struggle or provide leaders who not only would make land-reform a success by completely identifying themselves with it but also learn readily its social implications and work with understanding and ardent faith for their full realization i.e. become the builders of the new social order. This view was derived from the theory of the class-struggle and has been largely confirmed by experience of land-reform and working of the new system. Almost all local leaders of the land-reform movement belonged to the submerged classes, and justified the confidence reposed in them by their fidelity and achievements. They have, as a matter of fact, provided the men and women who now are in high places and performing the most important functions in building up China's new economy. *They distinguished themselves in the wars of resistance and liberation and are now also gaining great distinction in performance of the key duties in the immense task of construction. The faith of their topmost leaders that in these submerged sections were hidden abilities of the highest order and could, if properly utilized, provide vital*

<sup>1</sup> Chou Li-po, *Hurricane*, P-VI.

elan of the new life in China has been largely vindicated by actual results. These abilities were tapped with knowledge, skill and discrimination in the land-reform movement through which the masses were brought into action, and their energies were used for carrying out the revolutionary change. They formed the Peasant Association, gave them the required driving power and guided them in carrying out the national policies. The middle peasants were also admitted to membership of the Association, and, as a rule, one third of the committee members belonged to this class. These peasants, who generally constituted one fifth of the agricultural population, were fully associated with the tasks of realizing the objects of the reform and special care was taken not to estrange them in the least. As a matter of fact the intention was to expand this class by enabling the poor peasants to rise to its level through the re-distribution of land. This is what has actually happened and now the middle peasants are in large majority in agriculture in the country as a whole. The original middle peasants were not debarred from any office or organization, and they made important contribution to the successful completion of the land-reform. The poor landless peasants were, however, its backbone and, as pointed out above, were the real driving force behind the movement. The rich peasants were meant to be and in fact were excluded from the Peasants Association. They were not eliminated immediately because they had to be 'neutralized' i.e. they had to be made ineffective in counter-struggle, but it was intended then and it is intended now that they should be finally eliminated through the increasingly effective absorptive action of the new economy. The Peasants Associations were the main organs of the land-reform and also of the new village government, and have now in most cases been replaced by the administrative apparatus created by the new constitution, i.e. by basic Peoples Congresses and their executive committees. In the land-reform movement the Peasant Associations were all important and played a decisive role.

The Peasants Association before the distribution of land had, with the aid of the land-reform teams and in

accordance with the *general instructions* issued by the national government, to classify the entire agricultural population in the village according to the economic status of the various families. The essential purpose of the classification was to differentiate the exploiters from the exploited and as far as possible, put an end to exploitation. The five main classes in which the rural community was to be divided were: (1) Landlords (2) rich peasants (3) middle peasants (4) poor peasants and (5) farm labourers. It was known that these divisions could not be clear cut, i.e. there would be border-line cases in which decisions would have to be taken broadly and a certain degree of the dilution of the underlying principles of the land-reform would necessarily have to be permitted; but these modifications were meant to be slight, and in making differentiation the essential purpose of the reform had to be kept intact. The persons, who mainly lived on land rents and did not labour, were placed in the category of landlords. The peasants, who owned land on which they laboured themselves, but also used hired labour of two or more persons, were classified as rich peasants and where the area of land rented out by a rich peasant exceeded in size the land cultivated jointly by himself and by hired labour, he was referred to as a rich peasant of a semi-landlord type. When the rented out land was three times or more of the land cultivated jointly by the family and hired labour and in case of very large holdings when the former was twice or more of the latter, the family was classified as a landlord and not as a rich peasant family. Middle peasants were cultivators who mostly owned the land which they laboured on and as a rule did not hire labour and if at all only one labourer. Some of the well-to-do peasants in this class even derived a part of their income from letting out land; but if three fourths or more of their income was drawn from the work of the family, they were permitted to retain their family status as middle peasants. When the cultivators owned very small holdings but made their living mostly by taking land on rent or even partly working for landlords or well-to-do peasants they were classified as poor peasants. The rural proletariat, who had either little or no



land and had no farm implements, were put in the 5th class—the workers. They, of course, derived most of their meagre income from wage-labour. Labour was defined as essential as distinguished from supplementary labour, and was taken to cover main agricultural operations such as ploughing, planting and reaping and not such operations as weeding, vegetable gardening or looking after the draught cattle; and only those peasants were included in the non-landlords category who put in four months or more of essential labour on the land. Land let out by non-resident government employees, industrial workers, army men or owned by women or children, who could not cultivate it themselves, was not put in the distributable pool and the owners were not treated as landlords if their non-agricultural income, if any, fell short of the needs of the family. All agents, rent collectors, stewards etc. were given the status of their employers and treated accordingly. Class differentiation was determined by “democratic estimation and decision at the peasants’ meeting” and ‘by the method of self-assessment and public discussion’. All landlords and rich peasants, though not members of the peasants associations, were given opportunities to argue their case and participate in ‘public estimation and discussion’; and if they or other peasants were not satisfied with the decisions of the peasants as a whole, on matters relating to differentiation of status, they could appeal against them within two weeks to the higher tribunal whose judgment was final and classification was put into effect after it had been ratified by the latter. The work of land-reform including class differentiation, was carried on at the lowest administrative, i.e. Hsiang level, but the district, country and even provincial authorities maintained close contact with the progress, important decisions were referred to them for approval and ratification, and every care was taken to secure the largest possible measure of correspondence of local decisions with national policy without sacrificing regard for local conditions or proper deference to the views of the majority opinion of the peasants primarily affected by the agrarian reform. The whole process was intended to be largely self-regulatory and moved by the

steam generated from within. It was essential to prevent local excesses or disregard of the larger interests of the community; but it was clearly understood that the success and stability of the agrarian reform depended entirely upon the intelligent consent and active co-operation of the masses, and the whole procedure was devised with a view to realizing its object. Again making allowance for the unavoidable lapses and aberrations, the class differentiation and distribution of land and means of production—the two vital processes of the land-reform—“democratic estimation and decision” of the peasants were decisive and made the land-reform peoples’ movement i.e., a movement in the best interest and enthusiasm and which in a large measure released the power latent in them as a mass.

The distribution of land, the means of production like draught cattle and farming implements and surplus grain, furniture and houses of the landlords were the result of the land-reform. These were confiscated without compensation but industrial and commercial capital and assets of the landlords were protected i.e. they were permitted to retain their possessions and utilize them for carrying on economic activities. This discrimination was determined by practical considerations. Confiscation of agricultural assets, and even surplus grain, houses and furniture, was regarded essential for abolishing feudalism—the root cause of social and economic evils and reducing the landlords to the level of the other peasants in order that there should be no trace left of their having been dominant in rural economy. There was provision for not breaking up tea-plantations, mechanized farms, large orchards and any other large productive works. They were not to be confiscated but nationalized and managed as large units. Lands rented out by the rich peasants of a semi-landlord type, lands of temples, shrines, monasteries, churches, schools, and land owned by other public bodies, rural land of the industrialists and land owned by the men, who were in other occupation and their rented land amounted to more than twice the average holdings in the locality, were all put into the pool and distributed. An exception was made in the case of mosques and the estates

owned by them, were not taken over; and this was done purely for reasons of expediency. Even lands owned by the 'enlightened gentry'—the landlords who had worked for the new social changes and had in practice abjured their class affiliations—were also confiscated though they were treated with respect and given the positions of trust in the new regime. Lands belonging to the reactionary rich peasants and all other persons who were hostile to or sabotaged the land-reform or had played a leading part in organizing counter-revolutionary activities were also confiscated for distribution. Land of the rich peasant, with the exception of the portion, which they rented out and was in excess of the area cultivated by their family and hired labour, and land of the middle peasant was not 'infringed' i.e. the owners were left in undisputed possession of their estates, but, as explained above, the middle peasants were admitted to full membership of the new village community while the rich peasants were excluded from it. The area available for distribution was allocated to the families of the farm labourers, the poor peasants, the handicraftsmen, and industrial workers who went back to the village with the approval of the authorities and also of the martyrs, army men and others engaged in work of public importance who needed land for the support of their dependents. Land was equally distributed according to the size of the family on per capita basis, land already owned by the families was, of course, taken into account in assessing the relative needs of the families entitled to a share in the land available for distribution. Each Hsiang—a group of few villages, the lowest administrative unit—was taken as a unit for the purpose of land distribution and was also taken as the basic area for the implementation of agrarian reform. The scheme of distribution agreed to by the peasants' meeting had to be ratified by the higher authorities before it was put into effect; and after the ratification the new title deeds were issued to the new owners of land. After the distribution had been completed, its working had to be safeguarded and vigilant watch had to be kept on the ex-landlords, the rich peasants and the other disaffected elements against any

subversive actions or manoeuvres; and measures had to be taken to increase production, to improve technique and to raise the political and cultural level of the peasants. The Peasants Associations were also the organs for the performance of these duties and it was made clear that confiscation and distribution of land, draught animals and farming implements, were, as stated already, the first step in the onward march of the peasants towards the goal of socialist society, and they were called upon collectively and individually to proceed forward in that direction. The new holdings of the peasants were small and scattered; but as the units of cultivation even of the landlords' land, were, as a rule, small—for their properties were let out in bits and were hardly ever cultivated as compact estates—the distribution of land did not involve further sub-division of agricultural holdings to any significant extent. The object of the agrarian changes was to introduce "the system of the peasant ownership" in place of "the land ownership system of feudal exploitation by the landlord class". The object was in fact achieved after the land-reform had been completed in more than nine-tenths of the country; but peasant proprietorship was the means and not the end of the land reform. In itself it is taken to be a system of capitalistic ownership and it is assumed that it had in it the seeds of the revival of the capitalistic society. This inherent risk was duly appreciated; and as soon as the land-reform had been completed, measures were devised and introduced to resolve this contradiction.

Land-reform was given the highest priority in the work of restoration and construction because in the old agrarian system, in the words of Lui Shao-Chi,<sup>1</sup> was the basic reason why the Chinese nation had "become the object of aggression and oppression and had become impoverished and backward". It, also according to him, constituted "the principal obstacle to our nation's democratization, industrialization, in-

<sup>1</sup> Liu Shao-Chi is a vice-chairman of the Central Peoples' Government and has had a very distinguished career as a revolutionary leader.

dependence, unification and prosperity." Land reform was intended to mean and has meant a complete transfer of power from the landlords and their allies to the peasants; and is the basis of unification, democratization and industrialization of China. It has created a new sense of solidarity all over the country, given the peasants the power to choose their own village leaders and control their every-day life and increased their purchasing power and created a wide and expanding domestic market without which large scale industrialization of the country was impossible. This aspect of the land-reform has been referred to already, but needs to be clearly understood. Land-reform, it should be repeated, was not merely a shrewd move to win the allegiance of the peasants in the strategy of power; it has been conceived and implemented as a fundamental measure of social engineering of the highest order and it has to be understood in its intention and working as such. *Land to the Tiller*, the primary purpose of the reform, is not only an act of restitution but of building the new society from an entirely different standpoint; it is a real revolution and has a far-reaching intent.

## CHAPTER V

# NEW PATTERN OF RURAL ECONOMY

THE RURAL economy as it emerged after the completion of land-reform was an economy of peasant proprietors with small and scattered holdings. The average holding in China was about 2 acres though in North and North-East and North-West holdings were larger and in the South and South-East much smaller. China is a densely populated country and her population is very unevenly distributed. The law of inheritance in China prescribes equal division of land among the sons, and that has in China, as in India and many other countries, meant multiplication of uneconomic holdings, increasingly severe struggle for existence for the peasants, lack of resources and reserves and very precarious living. Relatively speaking the land reform has changed the face of the villages in China. Besides putting an end to the excessive exploitation by the small agrarian oligarchy, its many malpractices and paralysis of all initiative among the peasants, it has as already stated, increased their purchasing power, given them incentives born of knowledge that they are their own masters, brought women into production, made them full partners in the common life of the village, and given them strength owing to their confidence in the state's keen interest in their well-being and its ability to promote it with great vigour and understanding. They, as pointed out before, are in their turn bulwark of strength for the state and the main source from which the leaders of the new economy at all levels are drawn. All this is true; and yet in absolute terms the Chinese rural economy remains backward, the implements of cultivation old and, by modern standards, primitive, the farming technique traditional and static and their whole social heritage, in spite of its many virtues and rich content, a factor which represses change and growth.

The land reform, as stated in the last chapter, is therefore, taken to be the most essential but only the first step in building up the new economy. The introduction of the peasant economy with small scale and scattered cultivation was known to be a means to an end and not an end in itself; and it was, as a matter of fact, realized very clearly that unless vigorous purposive measures are adopted to alter the very basis of the peasant economy, the latter would become the greatest hindrance in the way of socialism, and 'the spontaneous working of the forces which it generates would mean restoration of capitalism in the village and the inevitable consequence—the impoverishment of the many for the benefit of the few.' It has, on that account, been laid down in the new Constitution that though the state protects peasant ownership and other means of production according to law, it 'ensures the gradual abolition of the systems of exploitation and the building up of a socialist society' through, among other measures, socialist transformation of agriculture by guiding and helping 'individual peasants to increase production and encourage them to organize producers', supply and marketing and credit co-operatives voluntarily.' Even these forms of co-operation are held to be only semi-socialistic in substance and transitional measures and the goal in agriculture definitely is the termination of all private property in land and means of production and its replacement by complete social ownership of both by making rural economy fully socialistic in its organization, operation, standards and norms, and in the process at work in the minds of men. The leaders of China regard the land reform as one of the greatest achievements and yet they know that unless they forge ahead with great speed and the utmost skill, it would, as stated above, turn out to be the greatest obstacle in the way of establishing socialism in China.

The agrarian reform has, on these assumptions, been accompanied by adoption of almost simultaneous measures for building up a new institutional framework in the Chinese villages. Already great progress had been made in realizing this object and the outlines of new pattern of rural economy

are clear and the means by which its development in the desired direction is to be accelerated have also been well defined. There is no disposition to under-rate the difficulties in the way of socialist transformation of agriculture and it is vividly appreciated that the task is truly herculean in character; but the self-obvious fact, that without socialist agriculture there can be no socialist society in China, is also very fully grasped and there is no intention to risk the frustration of the very purpose of the social revolution by permitting regressive factors to assert themselves in agriculture and hamper progress towards the goal of socialism. The villages in China are, therefore, in a state of continuous social ferment, and it is being made abundantly clear to the people that through the improvement in their conditions owing to land-reform bring with them new freedom and hope, they are in themselves no solutions of the problems of poverty, insecurity and ignorance, which are still widely prevalent in the countryside. Five hundred million peasants or over a hundred and ten million households are being constantly stirred to action through the growing realization of the inadequacy of individualistic farming as a road to prosperity, happiness and socialism. The Chinese peasants' attachment to the farm and the desire to own it has had to be taken into account and transformation has been brought about in stages. The events, however, have made it clear that for agriculture in China or the Chinese people there is no future unless social thinking and behaviour in the villages are adjusted to the needs of a rationalised, modernised and socialised agriculture. The people have been awakened to this fact and the necessary changes have been brought about, largely with their co-operation and understanding.

Improvements in agriculture which have taken place since 1949 have provided a basis for optimism. There are about 110 agricultural households and all of them owned land after land reform. Of these less than 4 p.c.—the proportion varying in different parts of the country—are rich peasants i.e. they used to hire a few labourers for cultivation



and through usury and small scale trading exploited poor peasants.

Most of the peasants now belong to the category of the middle peasants. According to the report placed before the National Peoples' Conference on July 25, 1955 by Liao Lu-yin, Minister of Agriculture, poor peasants, who were 60 to 70 p.c. of the total number of peasants before land-reform are now 30 p.c. in the new liberated areas (i.e. the areas which came under the communists' control after 1949) and 20 p.c. in the old liberated areas; and the vast majority of the peasants belong to the middle stature, and according to the Minister of Agriculture, they are 70 to 80 p.c. of the total in the old liberated areas and 60 to 70 p.c. in the new liberated areas. Holdings of the middle peasants are also small and scattered, but most of them cultivate them with family labour and their produce is sufficient for the maintenance of their families; and even though some well-to-do middle peasants do rent out their land, income derived from this source is, as a rule, a small proportion of their total income. The middle and poor peasants being now the bulk of the agricultural population, it is they, who have to be organized, educated and animated with a new purpose in order that the new pattern of rural economy should emerge and be placed on a sound basis. The farm labourers, as a class, are no longer important in the rural economy, though the poor peasants, who, from the very definition of their status, derive a part of their income from labour, are working for the rich peasants, or seek employment in subsidiary occupations or non-agricultural work for a part of the year. The agriculturists, however, are at present not fully employed in essential or supplementary labour, and one of the important problems, which China has not yet solved and which is likely to increase in magnitude and importance, as her agriculture is rationalized and labour organized, is the problem of the year-round employment for her enormous agricultural population.

Increase in production has been declared to be the most pressing task of the Chinese agriculture for upon it depends the improvement in the living conditions of the masses,

increase in their purchasing power for providing expanding markets for their industries, the supply of surplus needed for the fast growing non-agricultural population and the production of industrial raw materials. The pre-war production in China has been estimated to be 150 million tons of food grains but it fell to 113 million tons in 1949 owing to the war and civil war. By 1952 their production was increased to 163 million tons and in 1953, 1954 and 1955 in spite of floods it has been 166, 169 and 184 million tons respectively. In 1957—last year of the five year plan—it was expected to increase to 192 million tons or 17.6 p.c. above the 1952 level. The latest estimates, however, show that the 1957 target of 192 million tons is likely to be exceeded by 6.57 million tons. Decrease in production of cotton in 1949 was even greater (it was 52 p.c. of the pre-war peak level and was only 440 thousand tons. In 1952 it was 1.3 million tons, in 1953, 1.5 million and the target for 1957 is 1.63 million tons or 25.4 p.c. above the 1952 level. China is now producing and has rapidly increased the output of long stapled cotton which makes it possible for her cotton industry to weave fine varieties of cloth from home-grown cotton. The target for jute is 365,000 tons or 19.7 p.c. above the base year i.e. 1952, for cured tobacco 390,000 tons, an increase of 76.6 p.c., sugar cane 13.15 million tons, an increase of 81.1 p.c., and in oil-bearing crop, in regard to which China is feeling acute shortage at present, the increase of 19.7 million acres or 37.8 p.c. by 1957 has been provided for in the plan. This considerable increase in production has been achieved through technical and social changes and in the process the peasants have been organized to have an effective share in the working and development of the rural economy.

Organization of the peasants in production is being greatly aided and promoted through organization of sale and purchase, of the supply and allocation of credit and the establishment of numerous centres through which the new farming technique is propagated and widely diffused. The sale, purchase and credit co-operatives through which organization in these spheres has been and is being developed

are described and their functions and operations explained in the next chapter. The state-trading organizations, as explained later, are doing all that is possible to assist in more effective organization of agriculture and have achieved a large measure of success in their efforts. Price policy of the state has also been of primary importance in building up confidence and *toning up* the rural economy. This has been done by achieving stability of prices since 1950, but what is even more important, improving the relative position of agriculture in the entire economy by giving what may be called a rural bias to the whole price structure and gradually increasing the purchasing power of agricultural commodities in terms of the non-agricultural commodities which are essential for agriculture and the peasants e.g. fertilizers, farm implements, cloth, kerosene oil, salt and other articles of daily requirements. In other words, not only parity has been established between agricultural and industrial commodities, but the relation between the two is, by degrees, being changed, to the advantage of the agricultural commodities. This has necessarily a stimulating effect on agricultural production and creates a feeling among the peasants that they are getting a square deal. This is a matter even of far greater importance, as pointed out in a later chapter, in the areas inhabited by national minorities. The price mechanism in the planned economy of China has ceased to be the master of the economic system, but is being used with a great measure of success as a good servant. This is, as it should be, in all planned economies. In regard to agriculture in China, as stated above, the price structure is slightly weighted in favour of agriculture and this feature would have to be further developed in view of the fact that the economic position of the Chinese peasants still compares unfavourably with that of the industrial, professional or technical workers. It cannot be fully redressed in a short while; but the gap between the two has to be progressively reduced, among other measures, by changing the price-relation between the agricultural and non-agricultural commodities more and more in the interest of the agricultural population. With the state and co-operative

trading as factors of major importance in agriculture and with the terms of exchange being fixed to an increasing extent to improve the comparative position of the agriculturists, the latter has no reason to fear that he will be mulcted, as he has been in the past, by the working of the money economy and the intermediaries. This can be done, it is fairly obvious, because prices do not determine major economic decisions, they only indicate the impact of economic force and the need of readjustments if any, within the framework of major social decisions. Before concluding this paragraph on the organizational changes in agriculture it ought to be added that besides the administrative apparatus of the state i.e. the Local Peoples' Government, the communist party, mass organizations like the women's federation, the youth league and all cultural associations including the schools, take active interest in agricultural production and use their power, influence and contacts to develop it in accordance with the social directives. One of the most heartening experiences during the visits to the Chinese villages is what one sees of the part which the women's organization with its seventy to eighty million members, most of whose leading cadres are in their twenties, are playing in the new village communities in general and agricultural production in particular. The vigilant public opinion in the villages, which is of vital importance for the working and development of the rural economy, owes not a little of its force and success to the drive that the women are putting into it through their earnestness and organization.

It is a matter of conviction, as stated above, with the men in authority in China that socialism cannot be established, much less maintained and developed on the basis of the peasant economy in agriculture. Mao Tse-tung as early as November 1943, speaking at a reception given to the labour heroes of the Shensi-Kansu-Ningsea Border Region, stated his views on the subject in the following words: "The peasant masses, for thousands of years, have worked individual homesteads, in which every family, every farmstead constituted a separate productive unit. Such scattered, individual production is the economic basis of a feudal

regime and it doomed the peasants to perpetual poverty. The only means of eliminating this state of affairs is gradual collectivization; but the sole road to collectivization, as Lenin taught, lies through co-operation. In the Border Region we have already set up many peasant co-operatives, but so far this is only an incipient form of co-operation which, only in the future after passing through a series of stages of development into that of co-operation which exists in the Soviet Union under the name of collective farms." "The path pointed out at that time," in the words of Teng Ti-hui, a member of the Central Committee of the Communist Party of China, "has become a broad highway and the Chinese economy has been radically changed."

The stages by which the change has been achieved may be briefly explained. After the land reform the first stages in transformation was the organization of peasants into the mutual aid teams. These were described as embryo of socialism and first developed before 1937 in the province of Kiangsu during the first revolt of the communist party against the Kiu-Ming Tong and more fully developed from 1937 to 1945 in the war against the Japanese. Since 1949 their growth has been very greatly accelerated and in 1955, two-thirds of the peasants were practising this form of co-operation, progress being much greater in the North and North-East than in the other parts of China. There were two types of mutual aid teams—seasonal and year-round or permanent. In both private ownership of the means of production was maintained, each household controlled its own plot and owned its crops. Labour, however, was used on a co-operative basis, the peasants worked on one another's plot and in some measure mitigated the shortage of the means of production and in the case of permanent teams practised a certain degree of planning and co-operation in production. These teams were, however, small, comprising of three to a dozen households; and as they did not materially change property relations, they mainly performed a preparatory and educative function, but as such they have in fact served a very useful purpose and in a large number

of cases the producers' co-operatives grew out of the advanced permanent mutual aid teams.

These co-operatives were intended to realize the benefits of unified management and rationalized cultivation without impairing the private property rights in land. This form has, as is well known, been extensively used in Central and Eastern Europe after the war as a transitional method of introducing socialist agriculture. In China, however, it was tried, though not greatly developed, during the war years in the border region; and after 1949 it became the approved form of the semi-socialist form of farm-management and agricultural production. The underlying principles of productive co-operation in agriculture were simple and about the same in China and the socialist countries of Eastern and Central Europe. Holdings of the members were pooled and cultivated as one farm according to a crop plan decided upon by the members as a whole with the advice of government experts and up to a point within the frame of the national plan. Members and chairmen of the executive committee of the co-operatives were elected by and responsible to the members and all major decisions required the approval of the latter. The co-operative aimed at higher standard of technique, used better implements of farming and only in a few cases tractors, combines and harvesters and achieved, because of better equipment, technical guidance and superior farming practice, higher yields and larger agricultural output. The total income of the co-operative farm was, after deducting the expenses of cultivation, divided into three, and more and more in four parts. By common consent and according to model rules a certain portion of this income was set apart as reserve for investment and emergencies and another portion, which was and even is generally small, for public welfare and common services. The larger proportion of the total income was distributed among the members, partly according to the size and quality of the holdings and contributions of draught cattle and agricultural implements to the common pool as dividend for land share and partly as remuneration for the work done according to its amount and quality. The pro-

portion allocated to land share varied from 40 to 50 p.c., but its gradual reduction was held to be necessary and desirable. About 40 p.c. allocation of the disposable farm income to land share was the rule in 1955 and the rest was shared among the members according to the amount and quality of work. A system of work valuation was adopted for which consent of the members was needed and modified in the light of experience, credits were given every day on the basis of daily assessment and the account was settled after the harvest.

The growth of these co-operatives was a slow process. By May 1955 though two thirds of the households were organized in mutual aid teams, only 6.14 p.c. or about 65,000 had joined the co-operatives, and according to decisions taken in 1953 when their number was 14,000, it was proposed to raise it to 35,000 by the middle of 1954. In August 1954 it had, however, risen to 250,000, by May 1955, as already stated, to 650,000 and it was expected that by 1957—the last year of the Plan—one third of the households would join these co-operatives.

Mechanization of the co-operative farms on any considerable scale not being possible, efficient organization and rational utilization of labour power were the most important means through which they (the co-operative farms) could be developed for the benefit of their members and the community. The state provided technical assistance and guidance, granted loans and even subsidies for purchasing fertilizers and new implements and constructing minor irrigation works. This assistance enabled them to raise the level of cultivation, improve yields and bring relative prosperity to their members. Moreover, the co-operatives, in spite of being semi-socialist, paved the way for the advent of socialism in China through crop-planning, higher farming technique, specialization in production, systematic development of subsidiary production and by bringing into play creative initiative and enthusiasm of the peasants, discovering local leaders and giving them opportunity to use their talent and raise political and cultural level.

The whole position has, however, been completely changed since July 1955 when Chairman Mao Tse-tung, after careful analysis of the whole position, called upon the people to accelerate greatly the rate of development of the farming co-operatives and dispelled all misgivings in regard to the transformation of agriculture on socialist lines. He was of the opinion that time was ripe 'to plunge into the struggle for socialist revolution and gain it by learning in the process' for, according to him, "the situation is precisely one in which the mass movement is moving ahead of the leadership, and the leadership is not catching up with it." The movement has gained very great momentum since July 1955, and the number of farming co-operatives has increased since May of 1955 when the number of agricultural co-operatives was 633, 743, of which 529 were of the 'advanced' type, to over a million in May 1956 and included 91.2 p.c. of rural households of China of which 61.9 p.c. were members of agricultural co-operatives of the 'advanced' type and 38.1 p.c. of the co-operatives of the 'elementary' type. By May 1957 it is expected that except in the border regions, socialist transformation of agriculture, i.e. changes over to common ownership of land and all other instruments of production would be completed and the country would on that account advance rapidly on the road to socialism.

The point as to whether the change has been voluntary is of crucial importance. As to the intention of the framers of the Chinese economic policy there is no doubt whatsoever. Chairman Mao Tse-tung in his report, referred to above, clearly stated that "those who for the time being are reluctant to join co-operatives, we should continue to educate for a time and wait patiently till their political consciousness grows; what we must not do is to go against voluntary principle and drag them in against their will." In Article 2 of Model Regulation for the Agricultural Producers' Co-operatives adopted in March 17, 1956 it was pointed out that "though agricultural co-operation is the only clear road which can lead the working peasants to the final elimination of poverty and exploitation, "co-operatives must on no account resort to coercion in dealing with the peasants



remaining outside," "they must persuade and set an example to them so that they become willing to join when they realize that far from suffering loss, they can only benefit by joining." There may be no doubt about the intentions, but in the light of experience of the Soviet Union, and recent experience of Poland and Hungary, the people outside China are, it is understandable, not likely to readily accept the view that coercion has practically not been resorted to in bringing about these enormous changes, a real social revolution in the rural economy of China in less than two years. It is admitted that coercion has in fact been used in a number of cases in the formation of agricultural co-operatives and instructions have been and are being issued against the use of force in any form or shape in the development of the movement of agricultural co-operation. The fact that in these two years of basic transformation no serious stresses are known to have been experienced in the national economy of China appears to indicate that the preparatory plans for the development of agricultural co-operatives were well conceived and successfully executed. Mutual aid teams, 'elementary' types of agricultural co-operatives, national network of co-operative marketing societies, intensive political education of the peasants and adherence in practice to what is called mass line i.e. practical application of the principle that 'the peasant masses must be fully aroused, take action and liberate themselves through their own exertions'—are taken to be the steps through which almost complete socialist transformation of the Chinese rural economy has been achieved. As stated above, the events elsewhere suggest the need for caution and assurance that peaceful socialist transformation of agriculture in China as an accomplished fact has to be confirmed by the developments of the next few years. It is all the same necessary to realize that what in China is called 'surging tide of agricultural co-operation' is a fact of fundamental importance and as far as one can see at present, its sweep has not been to any significant extent determined by the use of force. The view of Mr. R. K. Patil, leader of the official delegation sent by the Indian Government to China for studying agricultural co-operation, that

"great majority of the peasants formed the co-operatives voluntarily and willingly" and "a revolution is taking place in the countryside the dominant motive of which is not fear but a change in peoples' ideas and minds which no administration by itself could bring about" is a view which is largely supported by the facts of the case and is entitled to very serious consideration.<sup>1</sup> The future may bring some unpleasant surprises, but it is legitimate to hope on the basis of the testimony of a number of competent observers that the 'mass movement' would not belie the expectations which it has aroused and the experience of China would be of real value not only to her own future but also to the other countries whose basic problems are not essentially different from those of China.

The semi-socialist co-operatives have now been almost replaced by the 'advanced' co-operatives and as the most important difference between the two is that in the latter all assets—land, draught cattle, farm implements, stocks of seed, manure, farm buildings, wells and other minor irrigation works—are owned in common and not merely pooled for unified cultivation of the entire farm. The entire net income of the co-operatives, after provision has been made for land-taxation, which becomes a liability of the co-operatives after the merger of all property rights, reserve and welfare funds, is distributed according to the amount and quality of work of members. The latter have their own small plots for growing vegetables and meeting other

<sup>1</sup> The position in China has been summed up by the Indian Delegation to China on Agrarian Co-operatives in the following words:

Far from noticing any signs of suppression and helplessness, we saw rural China at work, a regenerated nation, trying to make up for the lost time and looking forward to the future with complete confidence. A revolution is afoot in the countryside, the dominant motive of which is not fear but a ferment in people's mind which no administration by itself could have brought about. China presented a spectacle of self-sacrificing and disciplined leadership actuated by high motives of a quick build-up of their country into a powerful, industrialized, and modern State, marching forward in full confidence and persuading the people in accepting a new way of life. (*Report of the Indian Delegation to China on Agrarian Co-operatives*, p. 94.)

personal needs and in some cases operate subsidiary industries; but their work on the co-operative farms is the major source of their income and it becomes a matter of the utmost importance that their income from work should increase through increase in productivity and a fair system of exchange between agricultural and industrial goods. The reserve and welfare funds have to be built up and are intended to grow with the expansion of agricultural production and improvement in farming technique; but as the allegiance of the members can be won and maintained in initial stages by raising the level of personal 'disposable' income, contribution to these funds have to be modest at the outset and raised with the general consent of the members and with due caution. Personal interest of the members have to be safeguarded in the working of the co-operatives, and it is assumed that its success would largely be conditioned by the members being distinctly better off than they were as individual farmers.

The advanced co-operatives have also to be administered democratically and matters relating to co-operative regulation, election of the office bearers and members of the managing committee, question of compensation and distribution of income, production plans, budgets, work quotas and norms, periodic reports and admission or expulsion of members, contracts signed by the co-operatives and other important affairs have to be submitted to the general meetings of members. No decision on important matters like production plan, budgets, elections of office bearers can be taken unless two-thirds of the members of the co-operatives are present and all decisions have to be, of course, with the consent of a majority of members. A managing committee of nine to nineteen is elected for administering the co-operative, and also a supervisory committee whose function it is to see that the co-operative is managed in accordance with the regulations and the directives of the general meeting, accounts are in order and otherwise the standards of efficiency, honesty and regard for public property are maintained. The office bearers have to keep in close contact with the members and retain their confidence.

The co-operatives are a basic organ for the national economy and intended to play a decisive role in its development, working and transformation. As stated before, at the basic sent, co-operation and initiative of the people. If the co-operatives can in fact live up to the underlying assumptions of their constitution and the functions assigned to them, they can give a really democratic content to the operative aspect of Chinese new economy.

The co-operatives have to give the increase of production the very highest priority in their schemes and decisions. For this purpose they have to prepare long and short-term plans and in doing so they have to provide for the production and sale of their products, full utilization of the available labour, improvement of farming technique and accumulation of capital. Their plans have to be geared to the production and purchase plans of the state and they have, through contacts with the other co-operatives, administrative organs and other technical assistance centres, to raise the level of understanding and skill of their members, fulfill their duties to the state in paying agricultural tax and meeting the state requirements regarding purchases and delivery of the different agricultural products. Increase in production is obviously necessary for raising the standard of living of the members, increasing the prosperity of the country and carrying out the plan of its rapid industrialization. The development of agricultural co-operation is particularly linked to industrialization of the economy, and is held essential for the latter. It is known and conceded that mechanization of agriculture cannot be brought about at present and for the time being agriculture has to depend upon cattle power, relatively simple farm implements and non-mechanized subsidiary industries. Mechanization, however, remains the goal of agricultural co-operation, and according to Chairman Mao Tse-tung, it would take twenty to twenty-five years to realize complete mechanization of agriculture. That fast growing population of China has obviously an important bearing on the prospective mechanization of agriculture is at present hardly appreciated; but as this problem is not likely to emerge for ten to fifteen years, it is not of practical

importance in relation to the development of agricultural co-operation. Model Regulations lay upon the co-operatives the responsibility of gradual mechanization and electrification of agriculture. It is very unlikely that they will in fact seriously attempt mechanization even if electrification of rural areas can be brought about by increase in the generation of electric power. It is estimated by 1962 only 10 p.c. of the arable area, including newly reclaimed area, will be under mechanized cultivation.

'Social reform', to use the phrase which is current in China i.e. changes in the institutional framework, economic relations, social objectives and organization of productive forces, is China's immediate way to agricultural development and transformation. These measures would involve and promote important technical changes, but 'technical reform' in the ultimate sense i.e. mass production by tractors, combines, harvesters etc. has to wait until the present conditions which limit the scope for mechanization in agriculture is radically altered. The Chinese leaders firmly believe in the dovetailing of socialist industrialization and socialist transformation of agriculture. In the words of Chairman Mao Tse-tung, "We cannot fundamentally solve the problem of agricultural co-operation if we cannot jump from small scale farming with animal-drawn farm implements to large scale farming with machines." The premises of this view, however, need to be more clearly stated and fully discussed. The two revolutions, socialist industrialization and socialist transformation of agriculture can be carried out simultaneously and yet the journey's end may possibly be different from the one which envisaged the statement quoted above. As in the immediate future mechanization and socialist transformation of agriculture can be and have been separated from each other, the contradiction cited here would have to be dealt with as and when it actually arises.

The estimated increase of production of food grains to nearly 199 million tons in 1957, further increase of 35 p.c. provided for in the 2nd five year plan and doubling of the production by 1967 under the Twelve Years Agricultural

Development are expected to be realized through (besides extension of irrigation, reclamation, soil conservation and consolidation and development of co-operative effort) improvement in farm tools, use of better varieties of seeds, much more extensive use of manures and fertilizers, in the extension area on which several crops are grown, elimination of insect pests and plant diseases, improvement in farming technique by measures like deep-ploughing and close sowing and similar other measures. The state assistance it is assumed would be liberally available in the implementation of these measures; and the co-operatives are required to create interest in and develop the necessary skills for raising the level of production. According to the Agricultural Development Programme 1956-1967 the country has been divided into three regions and the target of production per mou (¼ acre) have, in broad terms, been framed. They are:

	Present Yield (1956) in catties (catty = 1.1 lb)	1967
North of Yellow River	150	400
South of Yellow River and North of Huai River	208	500
South of Huai River	400	800

These targets have to be worked out with greater care before they can provide a firm basis for agricultural pre-casts, but they generally indicate the scope of the development programme and it is, in view of the achievements in agricultural production of the last 7 years, not unlikely that they would in fact be realized.

Agricultural co-operation, on a nation-wide basis necessarily implies rationalization of agriculture, orderly utilization of labour force and economy in costs. In a densely populated country like China it should logically mean increase in labour supply surplus to the needs of agriculture and therefore greater rural unemployment which even the pace at which industrialization is being proceeded with cannot neutralize by transfer of labour from agriculture to industry. This possibility—rather logic—is not admitted in

China and it is maintained that 'the surging tide of agricultural co-operation' has actually caused shortage of labour in a number of rural areas, and in provinces like Chinkiang and Kiangsu the movement of labour in reverse, i.e. from a city like Shanghai to villages has begun on a considerable scale. This is, it is contended, due to much more intensive cultivation of land and corresponding increase in agricultural output per man day, construction of major, and even to a larger extent, minor irrigation works, extensive tree planting in mountain areas terracing and ridging, diversification of agriculture by the cultivation of new crops, dairy farming and development of a number of subsidiary industries and handicrafts, livestock breeding and implementation of the plans of development of local public-utility undertakings. The growth of agricultural co-operation has, it is obvious, created numerous work opportunities which previously did not exist because of the lack of imaginative understanding of social drive and organizational deficiencies. China was undeveloped not merely because of its backward production technique, low accumulation of capital and lack of technical personnel, but more because its people were exploited, social institutions repressed initiative and enterprise and the people were inertia-stricken owing to the age-old oppression. 'Liberation' of the people has in fact released their energies and the opportunities of labour utilization, which were at hand all the time, are now being utilized by adopting a new approach, by a higher level of understanding of the masses, by providing enlightened leadership with a real social vision, by tapping the hidden reserves of the people and, what is most important, by much more efficient organization. Agricultural co-operatives at present are not merely the means through which serious handicap of tiny, uneconomic, scattered agricultural holdings in attaining a high level of agricultural development is overcome; they are also the instruments through which the rural masses are given a new social purpose for bettering their own economic position and creating a new society and also the will and the means to build up a framework in which they throw up their own leaders, acquire new

social techniques, improve greatly their skills and tools of production and utilize local resources and man-power. Large public undertaking like programmes of road construction, soil conservation, afforestation, reclamation and the integrated river valley development programme add greatly to work opportunities and provide outlets for surplus labour.

Does all this mean that the problem of rural unemployment has been solved or its solution is well in sight? Does it, in other words, mean the existing and increasing pressure of population on land on account of rapid increase in numbers can and will be materially reduced or relieved? This question cannot be answered on the basis of the existing knowledge and experience. At present it cannot be posited with any assurance that new employment, which has been and is being created, would solve the problem of the existing rural unemployment and increase of these opportunities would keep pace with the rapidly growing population. The whole position needs to be statistically investigated and its needs and possibilities objectively assessed. The next step is, however, clear. It is essential to diversify agriculture, develop subsidiary industries and utilize handicrafts on a large scale for employing surplus agricultural labour. This, at present cannot be combined, as stated already, with large scale mechanization of agriculture; and the same applies to handicrafts as well; i.e. in regard to them mainly what are called labour intensive methods have to be used for their development. The view expressed by Premier Chou En-lai in his interview on August 17, 1956 with the Indian official delegation sent to China to study agricultural planning and technique that 'by and large, most of the rural workers would have to be employed in the village itself' <sup>1</sup> is essentially sound and has to be made the key point of thinking on this important subject. China has very large opportunities for development of subsidiary occupations and handicrafts in the villages which she is planning to utilize as fully as possible. Diversification of agriculture has a great economic potential of its own, and dairy farming, cattle breed-

<sup>1</sup> Report of the Indian Delegation to China on Agricultural Planning and Technique, p 27.



ing, fisheries, sericulture, poultry farming, herb culture, production of medicinal herbs, vegetable growing and similar other allied activities can be greatly developed through planned utilization of land by the co-operatives. They are being urged to do their best to enrich themselves and the community by rational development of their own resources through diversification and are being given by the state technical, financial and other assistance to implement these plans. Development of subsidiary industries and handicrafts as a secondary occupation is recognized as a very fruitful method of utilizing surplus labour in villages and is being interwoven in the new fabric of the rural economy. Under the twelve years programme referred to above it is expected that in seven years every able-bodied man would work at least 250 days and, in addition to household work every able-bodied woman 120 days a year. Large-scale industrialization has enormous possibilities, would be of decisive importance in determining the future of China, and is being rightly given the highest priority in her planned development. However, if Premier Chou En-lai's anticipation, for the future that by and large, most of the rural workers would have to be employed in the village itself comes true, as rationally speaking it most likely will, reorganization of agriculture through the co-operatives would involve planned utilization of enormous man-power of China through diversification of agriculture and full development of subsidiary and secondary occupations in the villages. The contributions of the co-operatives in carrying out the programme of utilization of labour and could, if carried out successfully, be even of greater importance than their contribution to scientific development of agriculture and increase in its yields; and it may be that in fact such contributions would be of greater importance from the social standpoint.

Assimilation of the ex-landlords and rich peasants in the new rural communities of China has been a problem by itself since 1949 and its solution is being greatly facilitated through the nation-wide co-operativization of agricul-

ture. Their potential hostility to the new economy was the working hypothesis of the development and transformation of the latter; and it would have been very unrealistic to proceed otherwise. They i.e. the ex-landlords and rich peasants were about 10 p.c. of the total population, and though the intransigents among them had to be dealt with severely, their subversive activities had to be repressed with a strong hand and as a class extreme vigilance against them was called for and it would have been very unwise not to exercise it, the problem of assimilation had to be faced and the necessity of solving it, given its due importance. Their elimination as a class was the object of public policy from the very beginning and the formula adopted for the purpose was that they should be protected, utilized, restricted and eliminated. They were excluded from the working of the rural communities and were in practice not eligible for holding any offices in village councils, the co-operatives and peoples' organizations; but it was also the object of public policy to 'redeem' them i.e. through practical re-education by active participation in productive labour and otherwise they should be assisted to live up to the needs of the new social system and acquire the outlook, the habits and the pattern of behaviour suited to the latter. The process of redemption has gone on through mutual aid and semi-socialist phases of co-operation but has been greatly accelerated through the rapid development of fully socialist co-operation i.e. through the advanced co-operatives becoming, for all practical purposes, the only agency of agricultural operation and corporate life of the villages. It had and has to be assumed that they as a class are educable and with the development of the new social milieu, norms and processes, they would respond to the needs of the new situation. Now that vast majority of the peasants are members of the socialist co-operatives and their gains and position have been very largely consolidated, it is possible to relax the restriction which have been applied to the old landlords and rich peasants and give them a more assured place in the new institutional framework of the villages. They are being now admitted into the co-operatives either as can-

didate or as full members and their children are professionally not being discriminated against in the matter of admission or participation in productive or cultural activities. They are not yet regarded as eligible for holding responsible position, but even this restriction is not likely to last long. The rich peasants occupied a position of subordinate alliance with the landlords, employed and exploited labour on a small scale and exploited it even more ruthlessly, rack-rented their tenants by letting out a part of their land on an extortionate share-cropping basis, charged usurious rates of interest on the loans which they advanced to the poor peasants and bought surplus grain cheap after the harvest to sell them dear with a very wide margin later in the year. Intensity of their exploitation was greater than that of the landlords, though its scale was much smaller and they did not belong to the village gentry. Now that the whole basis of the economy has been fundamentally changed, they have no power in the village polity, the development of the credit co-operatives have nearly put an end to usury and the state-trading agency and the co-operatives buy all the marketable surplus at regulated and fair prices, the rich peasants have no opportunities whatsoever to practice exploitation of any kind or exercise any power over the peasants. Most of them, it is reported, have already changed and realize that they have a future only as members of the co-operatives and resistance and even hesitation of the rest are being increasingly undermined. They had to be utilized in the early stages of social transformation owing to their superior farming techniques and possession of larger proportion of marketable surplus; and they had also to be protected and neutralized in the changing social set-up. Now they are neither needed by the new economy nor are they even a potential threat to it. They can be and are being re-absorbed through socialist transformation of agriculture which the advanced co-operatives have brought about. The process is peaceful, is developing from within and with due care it can be very beneficial for the establishment of a fully developed socialist economy.

It is clear that social gains of the co-operatives are more

important than the increase in production, agricultural output per man-day, improvement in farming technique, tools and skills and investment in development, diversification of agriculture, rational utilization of land and man-power and the development of subsidiary and secondary industries. If they are truly built on consent and willing co-operation and are democratically managed, they would involve and realize profound social changes and a real revolution in the minds of the rural masses. The peasants, through organization and change in their outlook, are being drawn closer to the workers and the alliance between the two given a new meaning and substance. There is still a gulf between the countryside and the towns in China as elsewhere, and it will take time to level up the former. The fact, however, that the country-wide co-operative organization is already in operation and 500 million peasants are animated by and respond to a new and growing social purpose is even of more fundamental importance than the technological possibilities of the changes that have been brought about. This is what the growth of new social consciousness means through which the co-operatives come into being and to the growth of which they can contribute so much. Through their growing welfare funds they provide within limits social security to the orphans, widows and the aged and contribute to the development of culture in all its aspects. The creative role of the women in production, life of the community and building up the new society is more clearly defined and very greatly strengthened through the co-operatives. The co-operatives are needed for expansion of production, but their social content, it may be repeated, is even of much greater importance. Their process of working and development has to be carefully watched, democratic spirit has to be preserved and fostered and every effort made to nip in the bud even incipient anti-social trends. The journey to socialism in the Chinese countryside has just begun and it has to go a long way before the goal is reached. It is, however, a matter of real importance that through these co-operatives an organizational framework has been provided in which new social processes can be developed and fulfil themselves.

The State has been providing technical assistance and guidance to the mutual aid teams, the co-operative farmers through state farms, experimental and demonstration farms, machine tractor stations and agricultural technique popularization centres. Of these the last, i.e. agriculture-technique popularization centres are the most important. Their number increased from 3600 in 1954 to 8000 in 1955 and 10,000 in 1956 and is expected to rise to 16,000 in 1957. These centres are primarily intended for technical guidance of the farmers and are staffed by agricultural experts. Their size and the area which they serve vary, but it is intended to multiply their number and provide for intensive development of technical guidance. In Shensi, according to the report of the Indian Mission on Agricultural Technique and Planning referred to above, there is one centre for two Hsiangs, each having between 500 to 1000 families and with a staff of 4 to 8 agricultural specialists. Some centres, however, cover 60 to 70 Hsiangs with 30 to 40 technical personnel. These centres (a) popularize scientific knowledge regarding agriculture e.g. use of manures and fertilizers, growing of various crops including vegetables, methods of insect and pest control, improvement of farming technique and tools, cattle breeding and prevention of animal diseases (b) sum up the experience of advanced farmers and extend their experience to other areas (c) train technical cadre of co-operative farms and (d) provide short-term training courses to farmers. More than half a million farmers had been trained by May 1956. The training is either provided at the centre in slack seasons, and in busy seasons the experts go to the farmers and provide the guidance on their farms. The centres are mainly doing what is, in other countries called extension work; and now that the whole country has been covered by the co-operatives, they are likely to increase through the co-operatives the intensity of and efficacy of their work. The technical personnel for work is increasing very fast and is being trained very rapidly in the numerous training institutions—colleges, secondary schools, cadre and technical workers training school. The co-operatives are known to have increased their production by 20 to 30 p.c.

This increase is partly due to the technical guidance and assistance which they have received from these centres.

In 1956 there were 3000 state farms out of which 140 were mechanized. They cultivated 2.2 million acres in 1955 which was expected to rise to 2.8 millions in 1957. They serve as models for farming technique and management, are used as experimental farms by the research institutes, play an important role in the multiplication of seeds and serve as demonstration farms. There were also 152 machine tractor stations in 1956 and their number had risen from 11 in 1953. These stations have tractors and equipment for servicing co-operative farms. The cost of mechanized cultivation in China is still high, but is being progressively reduced. On newly reclaimed areas these machines are needed and would be used to an increasing extent, but otherwise it may be repeated that their scope being limited they would most likely occupy a position of secondary importance in the development of agriculture.

Irrigation, protection and development of forest and animal husbandry are and have to be an integral part of the plans of agricultural development. The development of irrigation is included in the wider object of water conservancy, and owing to the floods being the scourge that they have been in China, it is right that this should be so. Minor and major irrigation works which had been neglected in the past have all been either rehabilitated and new construction has been undertaken on a large scale. South of the Huai river the repair and construction of small ponds, reservoirs and tanks, for example, provided assured irrigation for over 6 million acres by the middle of 1954. In the North wells are more important and have been repaired and constructed on a large scale. Diesel and electric pumps have been installed in a number of provinces and converted a large area into wet land with dependable irrigation facilities. Large canals and tanks have either been resuscitated or constructed in Honan, Hopie, Shenshi, Sinkiang, Szchuan and made intensive irrigation possible in these provinces. Large river-valley projects like the famous Huai river project or the new Yellow River project are being completed or planned.

In 1953, 23 major water conservancy projects were completed—among them Kwanting Reservoir near Peking which saved Hopie province from floods in 1954. The Yangtsi river valley have been surveyed with the help of the Russian experts and the possibilities of conserving its water resources carefully explored. In water conservancy work the Central Government is, of course, playing a decisive role, but governments at all levels and the co-operative farms are taking keen interest in it and local authorities have their water conservancy committees or bureaus. The people's participation in water conservancy works in the construction of minor and major works has been of fundamental importance and the speed with which some of the major works have been completed is due to their zeal and active co-operation on a large scale. This is a fact to which delegation of top-ranking engineers from India have borne testimony<sup>1</sup> and which has also impressed greatly many visitors to China in recent years. Irrigation is an old art in China and has been practised with great success for thousands of years. In Szchuan, for example, an old net work of irrigation canals which has again been brought into operation after a long period of having fallen into a derelict state, is even now held to be a great feat of engineering and in many parts works of great utility were constructed long

<sup>1</sup> Mr. Kanwar Sam Chairman Central Water and Power Commission visited China in May 1954 and in his report submitted to the Government of India made the following statement about construction of irrigation works in China -

Similar and even bigger structures and a far larger number have been constructed or are under construction in India. But the speed with which the works have been completed in China is unique. One of the most important and largest irrigation canals constructed in China is the main irrigation canal of North Kiangsu intended for irrigation of 4 million acres and navigation and regulation of flood. The bed width of the canal is 420 ft with a carrying capacity of 25,000 cusecs. The entire length of 100 miles of this canal involving 247 crores cft. of earthwork was completed in the course of 80 days. That is, everyday 3 crores of cft. of earthwork were done. There was no machinery and the entire earthwork including excavation, transport etc. was done by the human labour. The finished work is neat and the canal is functioning efficiently. Such speed of construction of earthwork on canals has not been achieved in India or anywhere else in the world even with the help of heavy earthwork equipment.

ago and are still, after recent re-habilitation, in use. In the new economy, however, these works, large and small, have a place of their own and are being completed by utilizing fully modern scientific knowledge and the new-born enthusiasm of the masses.

Achievements in irrigation may be summarised in the words of Indian Delegation to China on Technique and Planning referred to above, "In China an irrigation project which covers more than 10,000 mous or about 1,700 acres is classified as a major project and anything smaller than that is classified as a minor project. We were told that since Liberation they had built more than 300 major projects and about 10 million minor projects e.g. dykes, canals, tanks etc. Wells alone numbered 5.6 millions. The net irrigated area in China has increased from 50 million acres in 1949 to 64.5 million acres in 1955. Of this more than 80 p.c. is represented by minor projects. In 1956 it is proposed to bring under irrigation about 27 million acres of land."

Machines being scarce in China at present are being used even in the construction of major irrigation works only where they are indispensable; otherwise she is mainly relying upon her enormous labour power for the execution and completion of these schemes. These works are providing outlets for surplus labour in agriculture or labour which in off seasons is not engaged in agricultural occupations. These and similar works of public utility would have to be further developed for many years to come and there is no limit in sight to their expansion. This method of utilization of China's enormous man-power would, at least partly, solve the problem of rural unemployment and underemployment. Many millions of men have been working on these projects and many more would be needed when many more works are taken in hand as they will be in the near future. This would require careful planning and efficient organization; but experience acquired in the achievements, that are already accomplished facts, would be a good basis for fuller utilization of the available man-power in such works at all levels and of varying degrees of engineering effort. The peasants in China do not need to be educated in regard to



the importance of these works. Floods and droughts, from which they have suffered so severely and for so long, have driven the knowledge of their vital importance into their sub-conscious being. The vigour and ability, with which these works have been undertaken, is one of the most convincing proofs of the new government's solicitude for the well-being of the masses; and it has not only convinced them but also tapped their fund of latent energy and enthusiasm for their development and completion. These engineering works have also involved social engineering of a high order and in both respects the record of achievements is a matter with regard to which there can be no difference of opinion. Inter-action between the works which evoke heroic effort and the heroic qualities of the men who have been and are working for them has a significance of its own and is of piece with the general texture of the new life in China. It is an illustration of how a great revolution creates its own series of chain reactions.

Protection, preservation and development of forests being an undertaking, which requires foresight and long-term planning, was necessarily seriously neglected during the war and civil war years and large scale wanton destruction of forests took place. In 'Common Programme' it was laid down that 'forests shall be protected and forestation shall be promoted according to plan.' In fact very great importance has been attached to this object and it has largely been realized. All forests—state and private—are under public protection and supervision and the unplanned felling of trees is being prevented. Measures have been taken to re-plant trees in the areas in which the denudation on a large scale had occurred and vigorous measures are being taken to develop forest for soil conservation, for prevention of floods, for arresting the extension of shifting sands, for providing shelter belts in areas exposed to strong winds, for multiplying trees of economic value and for developing industries, like paper and resin industries, which depend upon forests for raw materials. This has meant wide surveys, establishment of numerous stations for control and regulation, training of scientific personnel in large number, increase of labour

force, construction of roads and railways in forest areas, large scale capital investment and establishment of the forest industries by the state. In afforestation, as in water conservation, the people's participation has been of great importance, and the people in general, the national minorities and even the army have played a very important part; and as a matter of fact afforestation by the state has been much less important than by the people themselves. The state has supplied seeds, saplings and, of course planned technical guidance, but in a large measure actual afforestation has been done by the people themselves. Up to the middle of 1954 about 3.5 million hectares of land had been afforested and the increasing rate of progress is shown by the following figures. In 1950, 119,724 hectares were covered, in 1951, 440,500 hectares, in 1952, 1,159,900 hectares, in 1953 1,111,070 hectares, up to June 1954, 697,254 hectares and in 1955, 1.66 million hectares. Long shelter belts have been planned and a large number of focal points have been established in North-East and North-West to complete the work by 1967. It is expected that a large area, which is now lying waste, would thereby be brought under cultivation. The number of students under training has been increased from 657 in 1950 to 10,637 in 1954 and a rapid expansion of the training institute has been planned. Cutting of forests and sawing is being increasingly mechanized. The country has attained self-sufficiency in respect of resin, tanning bark and a number of forest products and has even surplus for export. Supply of timber has been increased and is to be very greatly increased further in the next few years, and the distribution and allocation of the available supply is under public control, for trading in forest products is virtually a public monopoly. According to the pre-war estimates only 5 p.c. of the total area of China was under forests which if correct, shows that there is really an urgent need for great expansion of afforestation in this country. This is, as stated above, full appreciation of the need for and importance of forests and the measures which have been and are being adopted are an expression of this sense of urgency.

Animal husbandry, owing to its fundamental importance

for agriculture and its being the main occupation of many national minorities in North East, Inner Mongolia and North West, is also receiving great attention in the schemes of reconstruction and development. During the war and civil war years there was very high mortality among animals and it has been estimated that cows, horses and donkeys had in 1949 decreased by nearly 10 p.c. as compared with 1937 and sheep and goat by 35 p.c. In some provinces like Honan and Shensi the decrease was 60 to 70 p.c. The position has now been completely retrieved, and number of large live-stock has increased from 60 to 89 millions from 1949 to 1955, of sheep and goat from 42 to 84 millions and of pigs from 58 to 88 millions. Very great increase of animals has been planned under the second five year plan particularly in pigs in regard to which threefold increase has been provided for. This is being done to increase the supply of meat and manure and the co-operatives are fully participating in this effort. Shortage of cattle in China is still serious in spite of the actual and planned increase in their number.

Animal husbandry is the principle industry of the people living in a part of Jehol, greater part of Inner Mongolia, Chinghai and Sinkiang, a part of Szchuan, Yunan, Kwachoo, Sikang and Tibet—nearly 40 p.c. of the total area of China; and most of the people living in this area belong to national minorities. Nearly 48 p.c. of the animals in the country, i.e. nearly 63 millions, are found in this area and, therefore, from the standpoint of development of animal husbandry it needs and is getting very special consideration and attention. In other parts of the country also animal husbandry needs to be developed with great care for there is real shortage of draught and milch cattle in China. Preventive and curative measures against the epidemics like rinderpest, artificial insemination on a large scale for improving the quality of animals, development of veterinary service, full and short term training courses for the technical personnel, education of the people in the care of animals and similar other measures have been taken to develop animal husbandry and, as stated above, very good results have been achieved. The training facilities have been greatly

increased; in 1954, 14 veterinary Institutes, 36 veterinary schools and 8 Research Organizations were functioning and training veterinary personnel in large numbers.

Special features of the development of animal husbandry in China are mobilization of voluntary workers and changing the terms of exchange between the animal husbandry products of the areas referred to above and the commodities which they require for daily consumption. It is reported that 340,000 voluntary workers were engaged in the development of animal husbandry and playing an important role in organizing and educating the people in the areas in which animal husbandry is of special importance. Mutual aid teams and producers' co-operatives have also been organized in these areas. The cattle breeding co-operatives have also increased very rapidly in the last two years. It is, for example, reported that 83 p.c. of all the households in Inner Mongolia, one of the most important cattle breeding Provinces, have already joined the semi-socialist co-operatives, and a number of joint state-private livestock farms have also been formed. The completion of land reform has also greatly contributed to the people being relieved from levies and onerous obligations. The Mongols, the Kaziks, the Tajiks, the Kirkiz and other tribes—nearly 3.5 million people—live on animal husbandry and it is essential in the interest of production that they should get a fair deal. The co-operative and state trading organizations are offering higher prices for the commodities which they have to sell and offering them the commodities which they have to buy at much lower prices than before. The tribes were subjected to severe exploitation by their chiefs, merchants and traders which has now been put an end to. In Jehol, for example, a horse was exchanged for 30 feet of cloth before 1949 and now the rate has been raised to 500 feet. In Sinkiang one sheep fetched 12 ounces of tea and now the rate is two pounds; and the rate of exchange between sheep and printed cloth has been raised from 4 to 5 feet to 30 to 40 feet. This point will be further dealt with in a later chapter. It is of interest here as a measure for the development of animal husbandry, for this change has provided an effective incen-

tive for development. Re-adjustment of prices as a measure of economic and social policy is also a measure of development; and as trading is mostly a public monopoly, it has produced the desired result and brought to these people a new sense of being object of solicitude on the part of the Government. Technical and social measures have also been adopted in the more densely populated part of China for, as stated above, great increase in the supply of the draught and milch cattle is badly needed. In large cities like Shanghai, Peking and Canton measures are being taken to increase milk supply for the urban population. At present children and adults mainly consume soya bean milk and curd, which though good is known to be less nutritive than the ordinary milk. These measures are not likely to yield quick results and in this respect no striking change can be anticipated in the near future.

Reclamation of land is another measure for increase of agricultural production to which a brief reference is necessary. The reclaimable area of land fit for cultivation in China is estimated to be about 250 million acres. Reclamation, however, is a costly process, and before the reclaimed area can be settled, heavy investment in roads, houses, public amenities etc. is needed. Nevertheless in China, owing to the uneven distribution of population it is essential to explore fully the possibility of settlement of surplus population of the densely populated provinces in the areas in which reclamation is practicable. According to Chairman Mao there is the plan to reclaim 400-500 million mous or 70 to 80 million acres in the next fifteen years. The aim in the First Five Year Plan is to reclaim 6.4 million acres and upto 1956 over 4 million acres had already been reclaimed and probably the target would be exceeded by further reclamation in 1957. This reclamation is being partly carried out in small patches by the farmers in and near their villages; but on a large scale it is being brought about in the outlying provinces of Heilingking, Kansu, Yunan, Kirin, Inner Mongolia and Sinkiang. In Heilingking for example surveys in the last few years have revealed that there is over 18.5 million acres of virgin land which is cultivable. In 1956,

2700 tractors were being used in that province for reclamation and it was proposed to set up 31 new state farms and 400 villages for new settlers. Nearly two million acres were proposed to be brought under the plough in 1956; and it is reported that 260,000 settlers in fact moved to this province from Shantung, Hopie and Honan. From 1956 to 1962, i.e. by the end of Second Five Year Plan 6 million acres are planned to be reclaimed in the same province on which 800,000 households are to be settled and a large number of state farms a fair proportion of them highly mechanized, are to be set up. A careful survey of the outlying provinces is needed to assess the scope for extension of cultivation through reclamation; and the view that this scope is very limited, practically non-existent, has hardly any factual basis in spite of the extreme aridity and otherwise inhospitable character of large areas in the provinces which at present are very thinly inhabited.

Predominance of socialist co-operatives in the rural economy now would make agricultural planning much more efficient and effective. When individual farming was common, the state had to rely mainly on price incentive financial aid, technical guidance and political education which they could impart to the farmer for implementing their plan. The importance of these measures still remains, but now planning in agriculture can be carried out directly and the co-operatives as basic units can themselves participate in the preparation and execution of the plan and also exercise general vigilance in regard to its implementation. The central directives are issued by the Central Government, but before they are framed, experience and views of the co-operatives and all the other basic units are duly taken into account. The National Planning Commission and the Ministries have their counterpart at the provincial, the country and the district levels and all plans have to be prepared and co-ordinated; but before they are finalized, they have to be considered and discussed by the basic units in their general and specific aspects and become operative after their views on them have been known and taken into account. In theory it is assumed that the people would actively parti-

cipate in the formulation and implementation of the plan and, as stated above, the co-operatives, if they in fact function as they should, would be in a position to achieve a fair amount of correspondence between theory and practice. Since 1956 a new agency—the Economic Commission—has been created to check the work of the Administrative and the Planning Authorities at all levels. It is an accepted principle of planning and administration in China that all executive and planning agencies should be under the continuous supervision of separate and independent supervisory authorities, and therefore all economic enterprises have Supervisory Committees for independent scrutiny of their plans and their execution. The co-operatives also, as stated before, have Supervisory Committees besides the Managing Committees, and the former are directly responsible to the general body of members and report to them. Among the other advantages of the country-wide organization of the co-operatives the fact that they would be in a position to plan and execute at the basic level within the framework of the national plan would really promote decentralized initiative in the preparation and execution of the plans and strengthen democratic processes at the basic level. To what extent that is happening at present cannot be known or posited now, but the possibility is implicit in the theory of the co-operatives and the assumptions on which the planning apparatus is being built up in China. It may be hoped that the possibility would in fact be realized and the democratic content of the new economy thereby enriched.

Of the total estimated capital investment of 42,740 million yuans or nearly Rs. 8,550 crores on the first five year plan, investment in agriculture, forestry and water-conservancy, is expected to amount to 3,260 million yuans or about Rs. 652 crores i.e. 7.6 p.c. This is, however, exclusive of the estimated investment of 10,000 million yuans or Rs. 2,000 by the farmers or co-operatives and also of the loans granted by the Peoples' and Agricultural Banks and the credit co-operatives. Loans granted by the Peoples' and Agricultural Banks in 1953-55 amounted to 3,000 million yuans or Rs. 600 crores, and in 1957 there exist 100,000 credit

co-operatives with capital resources amounting to 1,240 million yuans or Rs. 248 crores which are also available for agricultural development. The total investments in agriculture are, therefore, very considerable, but investments in agriculture, important as they are, are not the real measure of the relative importance of the plan of agriculture development in China. For the development of agriculture main reliance is being placed not on capital expenditure, but reorganization of agriculture, improvement of farming practices, extensive use of improved seeds, fertilizers and better, not necessarily more costly, farm implements and 'creative initiative and enthusiasm' of the masses. Provision for the increase of 30 million tons in the output of food grains by 1957 and even a more rapid increase in the production of industrial raw materials would, it may be expected, prevent any marked disparity between the development of agriculture and industry or the setting up of difficult stresses. The rate of expansion of production, as pointed out before, has been accelerated, and the development of agriculture and industry are likely to keep in step with each other. The destination has been clearly set before the country. The peasant economy has already been practically replaced by socialist agriculture and development of large and highly mechanized collectives is the ultimate goal. The current plan is, a big step towards this goal—both in spirit and practice, even perhaps more in spirit than practice. Even with most of agriculture covered by the producers' co-operatives, agriculture would, at the end of 1957, largely remain, relatively speaking, a sphere of small scale cultivation, animal drawn ploughs and hand-operated, though improved, implements. China would still have a long way to go before the ultimate object of socialist mechanized agriculture, and large scale cultivation through collectives organized on the Soviet model is realized. The next step however is of crucial importance and bound to have a profound influence on the later developments. The Chinese are fully confident that this goal will be reached. The full implications of this momentous change would, however, be clarified by experience and probably necessitate re-adjust-



ments in theory and practice. Realism of the Chinese, which has stood in good stead so far, would, it may be assumed, save them from inflexible adherence to doctrine against the clear logic of the fact of experience.

## CHAPTER VI

# TRADING CO-OPERATIVES

THE CO-OPERATIVE sector, as stated before, is regarded as a very necessary and wholesome feature of the economy in a state of transition and is receiving assistance from the state in full measure. In agricultural production its expansion is, as pointed out before, one of the main tasks of the current plan. In handicraft production and rural credit it has lately been assigned an exclusive function of development and is being extended very rapidly. In retail sales in towns and cities it has also been given great importance and has been developed with earnestness and ability. In the sphere of rural trading, it has made the greatest headway and its achievements are very remarkable. Co-operation in China and other countries, which have the same inspiration, has certain characteristics of its own, which need to be clearly understood. Lenin and after him all communist leaders have disassociated themselves from what Lenin called 'all sorts of fantastic plans for building up socialism, all sorts of workers' associations.'<sup>1</sup> The difference between them and the co-operatives in an economy in which 'the state power is in the hands of the working class' is taken to be that in the latter, in the words of Lenin 'the mere growth of co-operation is identical with the growth of socialism.' In the state in which the working class is in power and the alliance between the *workers and peasants is firm and unbreakable*, according to this view, 'economic basis of educational work' to quote again from Lenin, 'among the peasants is to organize them in co-operative societies.' He specially stressed the importance of co-operative trading '*in which large masses of the population really take part*' (Italics by Lenin himself) and in which 'wide range of revolutionary action and revo-

<sup>1</sup> *Selected Works of Lenin* Vol. II p. 831.

lutionary enthusiasm' is combined with 'ability to be efficient and cultured merchant.' This view has been made the operative principle of the co-operatives in general and co-operative trading in particular in all countries, in which Lenin is the avowed source of inspiration and this is also true of China. For them co-operation is not an alternative to state socialism or a means through which small autonomous enterprises are developed, but an essential part and instrument of the economy which is based upon the principle of what is called democratic centralism. It is intended that in these undertakings—and particularly co-operative trading—'the large masses of population really take part' and earnest effort is made in fact to ensure that this intention is realized in practice in as large a measure as possible, but co-operation remains an instrument of public policy, a means of planned economic development of the country; and when the people are definitely on march towards socialism—a positive and important measure for accelerating the growth of socialism. The agricultural co-operatives and their working has been explained in the last chapter. The industrial and credit co-operatives will be more appropriately dealt with respectively in chapters relating to handicrafts production and currency, credit and banking. In this chapter the consumers' co-operatives and the trading co-operatives in rural areas, which are playing a very important role in economic transformation, can be described and their role in the new economy explained. They are a real spearhead of radical change and it is necessary to know their nature, scope and functions.

The trading co-operatives in rural areas, which are more important of the two, can be given prior consideration. These co-operatives are called marketing and supply societies and their principle function is to market the surplus produce of the agriculturist and sell them the means of production like farm implements, fertilizers etc. and articles of every day use. A large number of them had until recently handicraft co-operative section and rural credit section; but these functions are being performed by the specialized co-operatives and they are now purely trading

co-operatives and undertake only the purchase and sale functions for the rural population. The following table shows the extent and rate of progress of the marketing and supply societies:-

Year	GROWTH OF MARKETING AND SUPPLY SOCIETIES				
	Number	Members (in thousands)	Index	Shares (in millions old currency)	Index
1950	39,436	25,690	100	273,600	100
1951	34,576	79,630	309	927,100	339
1952	32,576	138,210	539	2,243,300	819
1953	30,449	146,960	572	2,611,700	955

Decrease in the number of the Societies is due to mergers and amalgamations. They are not the basic operative units, but each of them in itself is a federation of the basic co-operatives or the stores as they are called, and their main functions, as explained below, are to plan, to organize, to lead, to regulate, and to supervise the basic co-operatives. Their membership and share capital have increased, as the above table shows, increased rapidly and also the extent of their sales and purchases. This, however, has been a period both of expansion and consolidation and great care has to be taken to strengthen the foundations of the organization. In 1954 there were 110,000 stores, and more than half the Hsiangs—the lowest administrative units—were served by them.

Increase in sale and purchase or supply and marketing has been even more rapid than the increase in number and share capital. The following table shows how both have expanded:-

EXPANSION OF THE OPERATION OF MARKETING AND SUPPLY SOCIETIES  
(value in old currency)

Year	Marketing (value in millions)	Supply (value in millions)
1949	1,540	1,840
1950	11,070	23,950
1951	25,000	125,630
1952	182,960	1,166,600
1953	341,800	2,568,300

Since 1953 these societies have greatly increased the number of members and stores, sales and purchases. In 1955 the number of members was 162 millions, and of retail stores

and other commercial units to 183,182 of which stores were 160,090. The number of societies in 1955 decreased further and was 29,067, but this was again due to amalgamation and increase in the area, population and establishments covered by each society. In 1955 retail sales were valued at 116,510,000 million yuans and purchases by the Societies at 65,800,000 million yuans in old currency which was more due to the co-operativization of trade and therefore corresponding reduction in private trade than increase in the value of commercial transactions. With the increase of socialization of commerce since 1955 the marketing and supply societies are now practically the only distributive and purchasing agency in rural areas.

The retail sales in 1953 had increased owing to the increase in the scope of operation and to the increase in the purchasing power of the people, which, of course, had largely increased owing to the increase in production. The total agricultural production is estimated to increase by 23.3 p.c. i.e. at the rate of 4.3 p.c. every year in the five year period i.e. since 1952, and would thereby give large scope for the increase in the purchase and sales through these co-operatives. By 1957 retail sale of all commodities are expected to increase to 49,800 million (new currency) or 86 p.c. over 1952, retail sale by co-operatives by 240 p.c. and the sales of the rural trading co-operatives would, it can be expected, grow even at a faster rate. In 1953 these co-operatives handled 57.9 p.c. of the total marketable surplus of cereals, 96.4 p.c. of cotton, 64.1 p.c. of tobacco, 100 p.c. of jute, 70.3 p.c. of flax, 68.8 p.c. of tea, 73.7 p.c. of cocoa and 68.8 p.c. of cocoons. Since December 1953 the state virtually had the monopoly of grain and edible oil and the whole supply is distributed by it. The co-operatives really purchase these commodities on behalf of the state on commission basis. This planned purchase and distribution, as the arrangement is called, is to be maintained and further developed. Its need and utility will be considered in relation to the question of control and stability of prices in a later chapter. Monopoly of purchase and rationing of the essential commodities necessarily involves procurement and dis-

tribution of agricultural commodities and consequent increase in the importance of these co-operatives in rural trading. These co-operatives buy their requirements from the state trading organization, handicraft co-operative unions, from the co-operatives in the other parts of the country, from state factories and very rarely, if ever, from private merchants. The operative units estimate their future requirements on the basis of experience, the estimates are pooled by the marketing and supply societies and, if necessary, modified. They are forwarded to the Hsien (country) federations and after scrutiny and balancing forwarded to the Provincial federation and transmitted by them to the National Federation. The Federations enter into contracts with the state trading organizations, handicraft co-operative unions, factories and federations in other Provinces for the supply of these commodities and the schedule of delivery, and distribute them among the working units at the due time. The federal co-operatives charge commissions on their purchases, which is the main source of their income. The stores charge 10 to 12 p.c. more than the prices which they pay, but as a rule the prices in the village stores are about the same as in the cities and town and the range of variations has, as a result of the unified system of purchase and distribution in different parts of the country been very much narrowed.

The co-operatives are financed by the Peoples' Bank and each society has its credit plan which needs the approval of its union and local branch of the Peoples' Bank, while the credit plan of the federal co-operative, Hsien and Provincial, are prepared in consultation with the higher co-operative organization, the co-operative bureau of the Peoples' *Government at the appropriate level and the corresponding* branch of the Peoples' Bank. The state grants these co-operatives long-term loans for starting business which they repay in easy instalments. The Peoples' Bank lends to the co-operatives generally for three months and charges 0.63 p.c. per mensem which is nearly half of the rate which private merchants have to pay for similar short-term loans from the Peoples' Bank and even less than the rates charged

to the state factories. The co-operatives pay 2.5 p.c. business tax on the turn-over and Tax on Profits at the rate of 33 p.c. In the beginning these co-operatives were granted a rebate of 20 p.c. on the Tax on Profits which was withdrawn in 1954. All receipts of the trading co-operatives have to be deposited in the Peoples' Bank and all money required for their business is drawn by them according to the approved credit plan. This procedure not only increases the circulation of money but also enables the Peoples' Bank to get information about the state of business and also watch and regulate the turn-over of commodities and secure, as far as possible, adherence to the business and credit plans. These 162,000 co-operative stores are the agencies for the inflow of goods between the urban and rural areas and also the channel through which close contact is maintained with the villages for maintaining vigilant watch over the execution of the state plan, so far as it affects the villages, i.e. 80 p.c. of the total population of the country.

In the above paragraph federal character of the network of the trading co-operatives has been indicated. It needs to be more clearly explained. There were in 1953, as stated above, 110,000 co-operative stores and 30,499 marketing and supply societies. The former are the retail sale stores and the latter perform administrative, supervisory planning and whole-sale purchasing functions. Besides these there were 2005 Hsien Federations, 25 Provincial Federations and one National Federation. Members of the Societies elected their board of directors every year who have to keep them constantly informed of the working of the society and render to them account of the way this business has been conducted. They also elect representatives to Hsien Conference every two years which elects the Board of Directors of the Hsien Federation. The Hsien Conference also elects its representatives to the Provincial Conference every two years at which the provincial board is elected, affairs of the constituent units are reported on and the whole position reviewed from the standpoint of the Province as a whole. The Provincial Conference elects representatives to the Co-operative National Congress and at the session of

the Congress the National Council of 97 members, Board of Directors of 15 members, Board of Supervisors of 9 members are constituted by election for a term of four years. The Board of Directors consists of whole-time members, some of whom are assigned to the Provinces for direction, supervision and guidance. For every 300,000 members one representative is elected to the National Congress. Similarly quotas are fixed for election to the representatives conferences at the lower level. Each society is under the dual control of the Peoples' Government and the co-operative federation at the next higher level and the principle of guidance by and deference to the higher co-operative unit is observed all through the organization. The members have a direct control over the boards of directors at basic level and through their representatives at the higher levels. There are also appointed the boards of supervisors at each level who report to the members or representatives as the case may be and are expected to exercise, as this name signifies, powers of supervision on behalf of the Conference by which they are elected and report to them. This internal check is provided to maintain and enforce the principle of responsibility of the managerial boards to the original electors or the college of electors. Direct election at the basic level and indirect election by the representatives at the higher levels is the method by which 'new democracy' works in China, and the method is applied also to this co-operative organization, and as will be indicated later, to all other economic organizations in order to combine the participation by the masses in economic activities with efficient management of business and increasingly selective election of the directing personal at higher levels. The President and Vice-President of the Board of Directors of National Federation have access to the State Council of Ministers and are not unoften summoned for consultation.

It has already been stated that each Federation has its own independent source of income and the constituent units do not make any contribution towards its funds. They derive their income mostly from the commissions which they charge on purchase made by them for the constituents.



Their income is not only sufficient to meet their own administrative expenses but *also provides* a margin for grants in aid to the co-operatives which need them. These co-operatives at all level have to be in Lenin's words 'cultured merchants;' the wider aspect of their works has to be constantly kept in view and they have to combine it with 'a wide range of revolutionary action and revolutionary enthusiasm.' They would be untrue to themselves if they merely became a purchase and sale organization to eliminate the middleman's profits and protect the interests of their members. This large co-operative trading organization is, in the real sense of the word, an organ of socialist construction—a training institution through which the masses, in words of Lenin, 'Learn to build it (socialism) practically in such a way that every small peasant may take part in the work of construction.' More than the other co-operatives the trading co-operatives are performing their function with growing confidence and appreciation of the new horizons in the country. It is evident that these co-operatives have succeeded in achieving a large measure of penetration in the country-side, and can promote not only sound business, bring the benefits of the growing prosperity of the country to the villages, but also bring them within 'wide range of revolutionary action' and impart to them revolutionary enthusiasm. The measure of success which they have already achieved is a good augury of the future, and gives them an assurance that can and will fulfil their special role in the working of the new economy.

Profits of these co-operatives are utilized for common ends. Their distribution, is, with variations within well-defined limits, made according to regulations. The Societies, for example, have to set apart at least 55 p.c. of their profits as reserves and allocate 10 p.c. for cultural purposes, 10 p.c. for building fund, 3 to 5 p.c. for welfare fund, 2 p.c. for bonus to the employees and not more than 20 p.c. for dividends. The value of shares is one or two yuans in new currency. The staff generally are given free medical service and provision is made for giving assistance to the families, who are found to be in need of special assistance. The co-

operatives, like all economic enterprises, provide funds for cultural activities which include political education, literary drives, dance and drama groups and sports. Political education of members and the staff is given high priority and is well provided for. Reserve funds of these trading co-operatives are increasing fast at all levels and they have become self-financing to a considerable extent. These co-operatives have also been able to accumulate large building funds of their own and a number of these own impressive buildings specially designed for their own requirements. New buildings in China combine utility and modern amenities with a distinctive style of architecture. The buildings erected by the trading co-operatives are no exception to the rule.

In 1954 the Marketing and Supply Societies had 635,000 employees, their federations at different level 224,000 and their factories 218,000—in all over a million employees. The key positions in the organization were held by men who had acquired experience of administering economic enterprises in liberated areas, and as a rule they were socially awake and eager, if necessary, to supplement to their experience by additional technical or cultural training. Most of the employees, however, have joined after 1950 and have to be given the necessary grounding and training for their work. About 350,000 have already been through short courses and have been taught rudiments of accounting, statistics, appraisal of the qualities of the agricultural commodities which are purchased by the stores and, of course, the new ideology. In 1954 there were 33 training institutions in the Provinces and one National Institute, and these could admit about 15000 students. These training facilities need to be and will be enlarged as these co-operatives grow in number and size. *Average salary of a co-operative employee is 20 new yuans per month in the villages and 40 in the towns and varies from 20 to 70 yuans.* These scales need to be standardized and raised, and their revision was under consideration.

The National Institute at Peking was established in 1950, was training mostly lower-grade officers for the co-

operatives and 1800 persons passed out of the course. In 1953 the Provincial Institutes were established, in 1954 this Institute was training teachers for the Provincial Institutes and since 1955 it is training higher cadres for the Handicrafts Co-operatives, Marketing and Supply Societies and their federal unions. Political Economy, History of the Communist Party of China and Theory and History of Co-operation are common to these courses; but those who are under training for Handicraft Co-operatives have courses in Co-operative Management, Labour Organization, Co-operative Planning, Statistics and Accounting; while the special course for Marketing and Supply Societies consist of Supply of Industrial Products for Rural Areas, Wholesale and Retail Commerce and Purchase of Agricultural Products. The National Federation provides funds for this Institute out of the 10 p.c. earmarked for education out of its net receipts and further expansion of the Institute has been planned. About half of the teachers in the Institute had had experience of work in the liberated areas and most of them had been trained in the Peoples' University—the special institution for the training of cadres—whose courses and working are to be described in a later chapter. These teachers form co-operative groups—cathedra—for organizing teaching work. This system is modelled on Soviet practice and is being adopted in all teaching institutions. Its object is to develop team work, pool ideas, subject individual views, materials and methods to collective criticism and exchange experience. This system, which has also been introduced in all socialist countries of Eastern Europe, is held to be in keeping with the socialist theory of education and is reported to have given good results. Co-operative groups in a Co-operative Training Institute for organizing instruction are taken to be even more essential for realizing the new objects of education. The Provincial Training Institutes referred to above were in 1954 in preliminary stages of development and are likely to be modelled on the National Institute. The Soviet experience was drawn upon freely for developing the co-operative training institutions. The scale of salaries in the National Institute vary from 60 to 120 new yuans and

are about the same as in similar institutes all over the country.

The factories referred to above are owned by the trading co-operatives at different levels. Most of them are small scale production units, but some of them are of very considerable size e.g. cotton-ginning factories and oil mills. The total number of these workshops and factories in 1954 was 11,000 and they were employing, as stated above, 218,000 workers. Their scale of wages, conditions of work and welfare amenities are governed by labour regulations. Planned development of these factories, as of supply and marketing operations, of the co-operatives has been provided for, and reserve funds of the trading co-operation are to be drawn upon for the purpose. Co-operative production of consumer goods is intended to play increasingly important role in the development of the Chinese economy. This is particularly true of the handicraft co-operatives, but it also applies to factories owned and managed by the trading co-operatives.

In 1953 retail sales of the co-operatives were nearly 30 p.c. of the total retail sales in the villages. The proportion has since then been increased and by the end of 1957 co-operative trading would practically be the only form of trading in rural areas. In the village commercial exploitation of the agriculturists in China, as in most other countries has been an important factor in their impoverishment and resourcelessness. The trading co-operatives have already gone a long way in ending this form of exploitation and its elimination can now be taken as a foregone conclusion.

Before describing the working of the Consumers' Co-operatives in urban areas it would be desirable to give a more detailed account of the working of particular co-operatives in selected places. For this purpose organization and working of a Marketing and Supply Society near Peking, the Co-operative Unions of Peking and Canton may be described more fully. They are typical institutions and can illustrate the role which these co-operatives play in the new rural economy of China. The Marketing and Supply Society may first be described. This co-operative is situated in the rural district and is at a distance of a few miles

from Peking. Being near the capital city it is representative of a suburban trading co-operative. Started in 1949 as a group of separate village co-operatives, in 1953 it became a joint organization and now it has 135 units affiliated to it, including 100 village stores, 30 processing workshops, making noodles, cakes and pastry, coal balls and grinding millets with 200 workers and four service co-operatives for hair cutting, cycle repairs and a restaurant. The number of members has increased from 21,095 in 1950 to 57,584 in 1954 and share capital from 100 million in 1950 of old currency to 700 million in 1954, the value of share being 20,000 of old or 2 yuans of the new currency. The staff members increased from 53 in 1950 to 990 in 1954 including workers in the workshop, and retail sales rose from 10.8 millions in 1951 to 100.02 million in 1953 and increase of 90 p.c. was expected in 1954. This district has a population of about 50,000 households and nearly all of them had joined the co-operatives. Profits were distributed according to model rules and more than half were set apart as reserves. Cereals, oil and cloth, which are subject to planned distribution i.e. are rationed, were obtained from the state organization according to a plan approved by the city bureau and sold on its behalf on commission basis. The other commodities they bought from (a) City co-operatives (b) city state stores known as the departmental stores (c) handicraft co-operatives and (d) other district co-operatives. They pay in cash for their purchase except for the rationed articles which they, as stated above, sell as agents of the City Bureau. They entered into contracts for the purchase of rice and cotton on behalf of the state with individual members, mutual aid teams and producers' co-operatives, gave advance to them and after the harvest took delivery at stipulated prices. Margin between purchase and sale prices was 5 to 10 p.c. Two hundred members elected one representative to the District Conference at which 13 members of the executive committee and 9 of the supervision committee were elected. Each Hsiang has its representative conference of members at which its executive and supervision committees were elected. All staff members received free medical assistance

and there was provision for special assistance to the families in need. The co-operatives also contributed to the maintenance of spare-time schools which were run by the District Government and there was one such school in every Hsiang. A rapid expansion of the scales of operation of this Society was expected as it was one of the most highly developed areas from the point of view of co-operative farming and rationalized agriculture. The general standard of political education of the members was high and the members took a lively interest in the affairs of the co-operatives.

The Peking City Co-operative Union is a federal organization of 7 district consumers' co-operatives in the city, 6 rural Marketing and Supply Societies (the one described above is one of the six) and co-operative unions of schools, offices and organizations. It had 32 constituent units and owned and managed 24 factories among them one woolen mill, one cement factory and a coal mine. In the central organization there were nine sections. (1) Planning (2) Personnel (3) Directing and Organizing (4) Finance (5) Supply (6) Rural (7) Processing and Enterprise (8) Capital Construction (9) Training and (10) General Affairs. There were 240 staff members in the office of the Union. Number of members had increased from 390,000 in 1949 to 881,000 in 1954, i.e. 26 p.c. of 3.2 million persons in Peking were members of the co-operatives. Capitalists, including traders, landlords and rich peasants were excluded from the membership of the co-operatives. The number of stores increased from 381 in 1949 to 1200 in 1954. The purchases of agricultural products by the Union had increased from 4,200 million old yuans to 240,600 million old yuans, in 1954—in 1950, 12,400 millions, in 1951, 26,800 millions, in 1952, 65,000 millions, in 1953, 1,615,400 millions and in 1954, 240,600 millions. Its retail sales were 700 million old yuans in 1949, 1,300 millions in 1950, 3,500 millions in 1951, 8,800 millions in 1952, 38,400 millions in 1953 and 73,500 millions in 1954. The figures illustrate very clearly not only the expanding activities of the co-operatives but also rising prosperity of the people. Allotment of supplies were made to the stores through the district co-operatives and purchases were made through

the state organization, handicraft co-operatives and factories and from the co-operative unions in other parts of the country e.g. tea from Chingkiang, fried chicken from the Hopie co-operative union, oranges from Kwantung and Szchuan. Advanced contracts were entered with the co-operative union, state trading organization and state owned factories. The cadres increased from 2,257 in 1949 to 12,941 in 1954 and they were given from 2 to 6 months training in political economy, general line in the transition period, role of co-operatives, business accounting, finance and statistics. The city bureau keep in touch with the union, assisted in planning purchases, sales and production with the framework of the general plan, but did not exercise any administrative control over the Union. Funds were derived from the share capital, reserves and loans from the Peoples' Bank according to a credit plan approved by the National Federation and the Peoples' Bank.<sup>1</sup> The Union and its constituents paid business tax of 2.5 p.c. and a profit tax of 33 p.c. Nearly 60 p.c. of the retail business in Peking was done by the co-operative and state owned stores. The Union had its Executive Committee and the Supervision Committees elected by the Conference of representatives of the district co-operatives, marketing and supply societies and other co-operative units. The scale of salaries vary from 360,000 old yuans p.m. to 1.7 million and the average is nearly half a million which in new currency means 36 to 170 yuans with an average of 50 yuans. A few cases of corruption occurred and were duly dealt with, but the general standard of integrity was reported to be good and the cadres were putting their best into their work.

The Canton Co-operative Union, essentially speaking, had similar organization and its working principles were the same. Apart from rapid increase in the number of members, scale of business and working capital, the figures for which are given below, the Union had assumed some special

<sup>1</sup> In December 1954 the Union and its constituents borrowed about 80,000 million old yuans from the Peoples' Bank for which it has to pay .6 to .75 p.c. per mensem as interest for 3 to 6 months according to the duration of the loan

functions like marketing of fish, vegetable and cereals produced by the members in Hong Kong. Canton was liberated in 1949 and the Union, therefore, made a late start, had to face and overcome some special difficulties and needed and received larger financial assistance from the National Federation and the Municipal Government. The former made a loan of 1200 and latter of 1400 million old yuans, but by 1954 the Union had been able to accumulate large funds of its own, and 66.32 p.c. of its working capital was owned by the Union itself of which 23.12 p.c. was share capital. The state had by concessions of various sorts, rebate of 2 to 3 p.c. by state trading organizations, reduction of taxation in the first four years, state insurance for all contingencies, allotment of rent free buildings and grant of loans by the Peoples' Bank at rates which were ten p.c. less than the rates charged to the state owned enterprises—helped the Union to gain strength and achieve increasing measure of success. The Union and constituents had the Board of Directors and Supervision, like the co-operatives all over the country, but until 1954 they had been holding representative conference twice a year and elected boards of the stores and the societies only for six months. This was a transitional measure and since then the Union has fallen into line with the general practice of electing the office-bearers for one year term.

Progress of this Union may be indicated by citing the facts. In 1950 value of the total sales and purchases in old currency was 28,190 millions, in 1951, 243,380 millions, in 1952, 573,790 millions, in 1953, 830,000 millions and in 1954, 1,285,800 millions or sales in 1954 were 44 p.c. above the value of transactions in 1953, 30 p.c. more in 1953 than in 1954, 1.9 times in 1952 than in 1951 and 7.6 times in 1951 than in 1950. Rapid increase in the transactions of the co-operatives in early years was an index of their need. Owing to late liberation, life in Canton had been disorganized to a greater extent owing to the more intense struggle for power in and before 1948. Full time cadres were 479 in 1950, 1435 in 1951, 2604 in 1952, 3356 in 1953 and 3539 in 1954. The scales of salaries in old currency varied from 350,000



yuans p.m. to 1.4 million and the average as in Peking, was half a million. Value of purchase per member increased from 70,000 old yuans per month in 1952 to 140,000 in 1953 in the city and in rural area from 60,000 per month to 100,000. Nearly 18.4 of the city population had joined the co-operatives. Upto 1954 capital owned by the co-operatives amounted to 24,900 millions in old yuans, welfare fund 330 millions and the bonus fund 170 millions. Free medical service was provided for the staff members and there was provision of assistance to the families in great need, including the families with more than three children. In Canton, as in the Unions in the other Provinces, allowances are given to large families and their rate varies from 60,000 to 70,000 old yuans per month for all children above three.

The Union, besides purchasing and selling industrial goods, agricultural produce, fertilizers, farm implements and insecticide, also deals in sea food. It also purchases cereals and industrial raw materials for the state and distributes the rationed commodities. It, like all other co-operative unions, purchases mostly from state trading organizations, state factories, handicraft co-operatives and the union in other Provinces and cities. Loans from the Peoples' Bank were obtained according to the credit plan which had to be approved by the Provincial Union—its next higher co-operative organization, Municipal Government and, of course, the Peoples' Bank.

These three cases are cited here to illustrate the development of the trading co-operatives in China. The Consumers' co-operatives, which were functioning in cities and towns were affiliated to the Unions and in their working and organization they are mostly alike. They had the primary stores and district unions which were the constituents of the city unions. They too had the Boards of Directors and supervision committees at the basic and the higher level and the latter were elected by the representatives while the primary members elected the boards of the stores. The same regulations applied to the distribution of their profits and they had accumulated large reserve funds and were

making provision for welfare and cultural activities. In 1954 start had been made in social insurance in the form of free medical assistance and special assistance to needy families was also provided. 'Raising the level of social consciousness i.e. education in regard to the wider aspect of co-operation and understanding the principles of socialist transformation was greatly emphasized. The state assistance in various forms was as freely given to these co-operatives as to the other co-operatives, and they too enjoyed liberal credit facilities at concession rates. They had to draw their funds from the Peoples' Bank and deposit all their receipts with it. The following table shows the progress of these co-operatives from 1949 to 1953.

GROWTH OF THE CONSUMERS' CO-OPERATIVES IN CHINA

Year	Number	Members in thousands	Index	Share capital millions (old currency)	Index
1950	4,065	4,780	100	55,330	100
1951	3,526	8,770	183	128,800	233
1952	2,308	9,750	204	193,500	350
1953	1,888	10,770	225	251,600	455

Decrease in the number of these co-operatives, as in the case of the rural trading co-operatives, was due to mergers and amalgamations. They were liable to the same rates of taxation as the other co-operatives and business undertakings. The state retail stores being important in the urban areas, the plans of the expansion of the co-operatives had to be adjusted to the commercial plans of the state to a greater extent, but rapid supersession of private trading in cities and towns was anticipated. The anticipation has come true, but it has meant not only supersession of private trading but also of the consumers' co-operatives. The latter have since 1955 been more and more taken over by the state trading organization and now all urban stores, shops etc. are either state or joint state-private owned commercial units.

The very special role of co-operation in general and co-operative trading in particular in the socialist transformation of China needs to be stressed again. Through it

the will of the community becomes increasingly effective and and important in the working of her economy, it is a means through which mass participation in economic life and its development is realized in a large measure and Lenin's conception of economic democracy is put into operation. There is need for consolidation of the position, which has been attained, cultural and technical level of the staff also needs to be raised, they have to be given more intensive training in the theory and practice of co-operation and their initiative has to be more fully developed. All this and more has to be done in order to make co-operative trading a more important educative factor in the emergent socialist economy of China. The cardinal importance of co-operative trading, however, lies in the fact that it is a good instrument for removing many vestigial difficulties in social construction and developing new habits of thought and action—i.e. it provides a good basis for building up socialism.

## CHAPTER VII

# THE NEW INDUSTRIAL ECONOMY

IN THE ECONOMIC development of China the very highest priority has been and is being given to industrialization; and by industrialization is meant the development of modern, large scale power production. The backwardness of China in industry in the pre-war period was attributed to the imperialistic domination and the feudal economy which made it impossible for her to introduce and develop modern industry in keeping with her needs and possibilities. Her industrial development was seriously retarded because foreign interests used their power to suppress Chinese industries and the entire economy, dominated as it was by feudal agrarian relations and consequent poverty of the masses, was extremely unfavourable for the development of modern industry. Whatever development of industries did take place before the war was distorted, and largely confined to the coastal provinces; foreign investments and control occupied a semi-monopolistic position in the more important industries and the Chinese industries were almost entirely dependent on foreign imports of machinery and in many cases, also on import of raw materials from other countries. The serious damage suffered by the Chinese industries during the war and post-war years created a position of extreme difficulty for the new regime and made industrial rehabilitation, even more than general economic 'rehabilitation' a paramount practical necessity. The old industries had to be set on their feet again, but the very ill-balanced character of the pre-war industrial development and the urgent need for realizing new social objectives made it essential for the new policy makers to think in much wider terms than restoration; and the fact that the new state was based upon the alliance of workers and peasants and its avowed object was the promotion and

early establishment of a socialist economy gave to industrialization—i.e. rehabilitation and rapid development of modern industry—an entirely new significance and importance. Private enterprise was permitted to function and given all assistance to restore and increase production; and it was also made clear that it, i.e. private enterprise, would be assigned a role of its own in industrial rehabilitation and development. It was, however, also made absolutely clear that private enterprise would fulfil its assigned role under the 'leadership of the state economy' i.e. under its supervision and control and the state owned and operated industries would rapidly grow in importance, set the pace and eventually supersede privately-owned industries in the entire economy of the country. There was no question of private and public sectors co-existing and the former having a position of co-ordinate importance in the national economy. Private sector was given a subsidiary place from the very beginning and in the developments which have taken place since 1949 public sector has as is clear from the facts cited below, grown even more rapidly than was anticipated, and private enterprise in industry has almost already disappeared. The state economy, having been in a leading position since 1949, is now dominant in the industrial sector.

Industrialization of the country is, from the standpoint of the communist party, an article of faith. New technique inherent in industrialization is a new 'productive force' which creates contradiction if it is used for personal profit; but if it is used for and by the communists, it becomes the basis of new social harmony and great happiness, prosperity and progress for the people. In order to realize all the good that it can do, it requires new 'productive relations' and hence the necessity of social ownership of the 'means of production'—of socialist industrialization. That means that the state-owned industries should lead and determine the course of industrial development and become the basis for the establishment of socialist economy in its fully developed form. Industrialization is, according to this aim, essential, because it is in line with historical economic evolution and without it socialism cannot be realized. New

productive forces have to be brought into action fully in order that the socialist framework may be created and socialist values may have the opportunity to develop and operate within it. The industrial economy, which new China had inherited, was not only derelict because of the stresses of the war and post-war period, but it was also in an extremely morbid state because of having been grafted on a feudal economy and mainly for serving and promoting foreign interests which had, as pointed out before, acquired such a dominant position in the Chinese economy. New industrial economy was, therefore, essential for China's independence and healthy growth of her national economy. It could not be introduced without altering the very basis of agrarian relations, and it could be developed only if in the Chinese rural economy not only landlords were eliminated but it was developed upon a truly co-operative basis. In other words, socialist agriculture was essential for socialist industrialisation, but without the latter socialist agriculture, it was firmly believed, could not be developed. The inter-relation between the two was a relation of reciprocal necessity, both were needed in order to stimulate and develop each other. They were really two aspects of the same social process, both were indispensable for socialist transformation of the country and their planned and parallel development was the substance of 'the general line' of transition which had to be and has been adopted in China. This line was indicated clearly by China's specific needs and conditions and is, as stated above, an inescapable necessity. Socialist industrialisation, in other words, is both the means and the measure of China's advance towards full independence, of liquidation of the old and unequal relations between her and the Powers, which had for more than a hundred years perverted the course of her national history, and for the social emancipation and significant improvement in the condition of life of her people.

Socialist industrialisation also, from this standpoint, implies that the development of heavy industries—i.e. the industries like metallurgy, fuel power, chemicals and machinery—should have been given precedence in the

scheme of economic development. These industries have to be developed first because, in the present context of the international situation, they are essential for the national defence of China and she cannot reduce and overcome her existing position of insecurity without developing the industries which can produce planes, mechanized artillery and transport, heavy explosives and other weapons of modern warfare. She needs and wants peace for her development, but is fully aware of the grave risk to which she is exposed and cannot afford to take any chances. Apart, however, from the over-riding considerations of national security, the development of heavy industries is given the highest priority because they are needed for laying the foundation of her economy on a sound basis and for making available for her agriculture, communications and industry the means of production required for their rapid development. As stated already, mechanized socialist agriculture being the goal of the development of the new rural economy, it is held necessary that the Chinese should be able to produce tractors, combines, harvesters in a large number for the eventual mechanization of her agriculture. She, of course, requires a large quantity of chemical fertilizers immediately for increasing her agricultural production, and has to make their production one of her immediate basic tasks. For the accelerated development of her railways, roads and shipping, of her large river-valley projects of irrigation, navigation, flood control and power, of production of generators, transformers and other electric goods needed for the rapid electrification of the country and for attaining self-sufficiency in the production of machines and tools for building up consumers' goods industries, even for the expansion of her handicraft and small scale production—she has to produce small machines and tools in great quantity for the improvement of technical processes and the reduction of costs is an accepted objective of the schemes of development of handicrafts and is being pursued with great earnestness. From all these points of view the development of heavy industries is very urgently needed, has been given the topmost priority from the very outset and is now being carried out with great

vigour and clear appreciation of its utmost importance. This necessarily involves very considerable self-denial on the part of the Chinese people. Improvement in the living conditions of the masses has taken place and greater improvement in the current plan-period has been provided for; but it is fully understood that the greatest emphasis on the development of heavy industries necessarily implies that the nation as a whole has to live on an austerity basis and forego with understanding the fruits of her strenuous and intensified efforts for the time being for the sake of an assured future. Austerity cannot and should not be carried too far, for the margin in China between the irreducible minimum and the existing standard of living is still narrow, and has to be widened. Actual limit beyond which austerity should not be carried is a matter of social choice which is made easier by the fact of 'democratic dictatorship' in China and increasingly unified character of her productive system; but in order that the limit may be laid down with due regard to the needs of the masses and right understanding of their capacity for endurance, it is essential that close contacts with them be maintained and the persons in authority 'keep their ears to the ground.' Recent developments in the other socialist countries have, it is well-known, greatly increased the importance of this consideration. Constant vigilance is needed to prevent over-straining the willingness and capacity of the people to work for the future—to endure the stress inherent in large scale investment in heavy industries. A part of the increased wealth of the country due to the expansion in production has to be utilized intelligently for progressive improvement in the living conditions of the people; but nevertheless the larger part of the increased productive capacity has to be made available for capital construction in general and for the development of heavy industries in particular. This requires judgment of high order on the part of the planning authorities and continuous attention to political education of the people. The latter, as stated before, is an essential part of the whole system and is being promoted constantly. Errors of judgment, as the experience of Soviet Union and the new socialist



countries of Eastern Europe clearly shows, can occur and have serious consequences. It appears that in China so far such errors have not been serious and the danger of their occurrence is fully realized. The price of the rapid development of heavy industries has to be paid in terms of self-denial on a large scale but the technique through which the price is to be paid requires an effective combination of social appeal on a mass basis with a carefully worked out mechanism of prices and fiscal expedients through which the economy can generate its own surpluses and use them with fore-sight and proper balance among the alternative avenues of investments. Balance has also to be struck between human and material investment; but in the last analysis the community has to do without immediate rise in the standard of living of the people for the sake of important social gains in the future. The more vivid the appreciation of the latter on the part of the people the greater will be the capacity 'to save' for the future on a collective, and to a much smaller extent, on an individual basis. A high rate of capital accumulation being inevitable for the development of heavy industries, allocation of the much greater portion of the increased production for investment in itself requires, apart from the decision at a high level in regard to the proportion to be so allocated, a new complex of social and economic devices as an essential part of the working of the economy. This need is clearly understood and is being kept in view in the programme of industrial development.

The pre-war industrial economy of China, as stated above and in an earlier chapter, was extremely backward and had grown up fortuitously without any relations to the real needs and resources of the country. Its most significant feature was (a) negligible growth of the heavy industries (b) low aggregate output of light or consumer goods industry (c) uneven distribution of factories and their undue concentration in coastal industrial centres like Shanghai and Tientsin and a few other cities like Mukden, Hankow and Wuseh and (d) dominant position occupied by foreign interests in important industries like coal, chemical and even cotton spinning and weaving. Foreign interests, besides controlling

important sectors of industry, were all powerful in foreign commerce, banking and shipping and were therefore in a position to determine through them the working of China's industrial economy. Some facts in support of these statements may be cited. These relate only to the pre-war position of the industries in China. The position with regard to commerce, banking and shipping will be briefly indicated in later chapters. In 1936 China had 635,135 kw. of electricity, 80 p.c. of which was concentrated in coastal industrial centres. Coal production of China in 1936 amounted to 34 million metric tons, of which 12 million tons was produced in Manchuria. There was no relation between the country's coal reserves and actual coal production. Manchuria for example, having 2 p.c. of the country's coal reserves produced 35 p.c. of the national coal output due mainly to better rail system. Hupeh, another coastal province with 1.29 p.c. of the country's coal reserves produced 20 p.c. of the total output, while Shensi, whose coal reserves were estimated to be 82 p.c. of the national reserves, accounted for 9 p.c. of the total coal production. Most of the oil output of China was produced from shale in Fushen (Manchuria), nine-tenths of which was used to feed the Japanese navy. The total output of shale-oil in Fushen in 1934 was 674,868 barrels (42 gallons per barrel) out of the total of 677,481 barrels, and most of the Chinese requirements had, therefore, to be met by imports which in 1936 amounted to 68 million barrels. In 1936 China produced 2.14 million tons of iron ores, 513,000 tons of pig iron and only 150,000 tons of steel, and most of the ore, not only of Manchuria but also of the other Provinces, was either exported to Japan or smelted in Manchuria for her war-machine. In regard to tungsten and antimony China occupied an important position in international market, and its total production of 7000 tons of tungsten and 10,000 tons of antimony in 1939 were mostly exported. In regard to machine industry China had 400 machine shops, mostly in Shanghai, Wuseh, Tienstin and Hankow and most of them were virtually 'repair' and assembly works. There were 44 factories for manufacture of electric machinery and they produced small generation

motors, bulbs, wires and small appliances, the total value of which did not exceed, \$10,000,000. Of the basic chemicals like sulphuric and hydrochloric acids, soda ash and caustic soda China produced very little and the output of sulphuric acid in 1936 was 68,000 piculs (one picul=100 catties; 1 catty=1.1 pound), of hydrochloric acid 61,000 piculs, soda ash 600,000 piculs and caustic soda only 40,000 piculs. These figures are an index not only of the backwardness of China in the basic industries, but also a measure of the effort which is involved in the new targets of production which she has already attained or has set herself in the new five year plan. Heavy industries were practically non-existent in the pre-war China, and in giving to this development the highest priority new China is making a stupendous effort to work off one of the worst legacies of the past.

Consumer-good factories comprised 80 p.c. of the 4000 of the factories registered with the Ministry of Industry in 1937, and of these 55 p.c. were textile and food industries. The cotton textiles was the most important industry in the pre-war China, but in 1937 in China including Manchuria there were only 5,100,000 spindles and 50,000 power looms which produced approximately 21 million bales of yarn (1 bale=420 pounds and 30 million pieces of cloth; 1 piece=40 yards). Sixty p.c. of these spindles were in the Kiangsu Province—mostly in Shanghai. The total output of silk in 1936, the other important textile industry in China, was 60,000 quintals and 88 p.c. of it was produced by the Provinces of Kiangsu (63 p.c.) and Kwantung (25 p.c.). The woolen industry in China was very backward and she had only 260478 spindles before the war. Flour mills were the most important food industry in China, but there were only 66 flour mills in the country, they produced only 65 million bags of flour and most of these were also located in the coastal industrial centres. They produced only 20 p.c. of the national requirements of flour, and from 1903 China imported large quantities of flour without any break. There were other food industries like oil-pressing, rice-milling and egg-powder industries, but they were even smaller in size and outfit and were unimportant in the industrial struc-

ture of the country. There were sugar mills, match factories, shoe-factories and 1000 to 1500 small establishments producing a variety of articles of everyday use, but taken together they employed less than 200,000 workers and accounted for only a very small fraction of the total national income. It has been estimated all 'modern' factories taken together produced less than 10 p.c. of the total national income and employed probably less than 1 p.c. of the total population. These estimates contain large element of guess work, but these figures make it quite clear that modern industry had developed on what R. H. Tawney calls 'fringe of a society based upon handicraft methods and small productive units.'<sup>1</sup> It had great importance as a catalyst, but in itself was built upon truly on the fringe of the Chinese economy, and the fact that it is now to move to the centre and largely determine its future growth acquires a fundamental significance in the light of these facts.

Foreign control of the Chinese industries was extensive and exercised, as pointed out before a malignant influence over their growth. "A point of capital importance" in the words of R. H. Tawney, "both for the economic and political future of the country, is the fact that backward as her heavy industries are, they are largely outside Chinese control."<sup>2</sup> This position had worsened in this respect, and according to Henry Graves the share of the Chinese capitalists in coal mining, which had been 40 p.c. in 1923 dropped to 30 p.c. in 1928. Foreign capital, particularly the Japanese and the British capital, controlled 72 p.c. of coal output. In iron and steel foreign capital controlled 90 p.c. by 1928 as against 70 p.c. in 1923. The important textile industry suffered even more from inroads of foreign capital, especially Japanese. Before 1925-27 the Chinese owned 50 p.c. investments in textile industry. By 1930 the percentage of foreign ownership had risen to 80 p.c.<sup>3</sup> The total investment in economic undertaking in China increased from \$503.2 millions in 1902

<sup>1</sup> Tawney R. H., *op. cit.* p. 121.

<sup>2</sup> *Ibid.*, p. 123

<sup>3</sup> Henry Graves *When China Unites*, p. 110.

to \$1684.5 millions in 1914, to 2531.9 in 1931, to \$3676.4 millions in 1936 and \$8320.3 millions in 1945. Great Britain, Japan and U.S.A., France, Germany, Italy, Belgium, Holland and Czarist Russia had all invested in China and all of them wanted to use foreign investment as an instrument of economic and political power, but Japan was, it need not be added expanding her investment more than the other Powers with aggressive intent and in 1945 the value of her interests in China nearly 65 p.c. of the total foreign investments. The British investments in economic enterprises in 1945 amounted to \$1007 millions or 13 p.c. of the total. Besides these investments these countries had lent to the Chinese Government, sometimes, as is well-known, against its own will. \$1443.7 millions by 1945, of which the share of the U.S.A. was \$695.4 or nearly 48 p.c. These loans had been borrowed by or been forced upon China for railways, communication and administrative purposes and had, it may be repeated, played a very decisive role in reducing her to a position of economic and political subservience. Foreign control of the Chinese national economy in general, and her large scale industries in particular, was a fact which had most sinister effect on her position as a nation, and complete elimination of this control is rightly reckoned as one of the most significant achievements of the revolution.

Owing to over-concentration of the Chinese industries in the coastal areas more than 80 p.c. of them were lost during the war. During this period some Chinese factories were moved physically to the unoccupied areas of China and efforts were made to make up the loss of industries as far as possible. These movements and efforts had a heroic quality of their own, but taken together, as stated in chapter II, pp. 29-30, they did not produce substantial results. The migrant factories and workmen, for example, were only 639 and 12,164 respectively. In unoccupied China electric power generated increased from 86,260 K.W. in 1940 to 170,597 K.W. in 1944, in 1944 the total coal output was 5.8 million tons, production of petroleum 4 million gallons, steel 13,361 tons, copper 256 tons, lead 646 tons and zinc 331 tons. In regard to the production of consumer goods the

position was hardly any better and in 1944, the total output of cloth in unoccupied China was 2 million pieces (one piece = 37 yards), of yarn 121,045 bales (one bale = 420 lbs) and of wheat flour 3.48 million bags (one bag = 33 kilograms). The fact, that these achievements were so poor, was due more to the inefficiency and corruption of administration than to the serious handicaps which undoubtedly limited its economic activities. The old industries which functioned in the coastal areas, were either hitched to Japanese war machine, or kept up their production under grave difficulties created by the war. They were in a bad state at the end of the war, and the total production of industries, old and new, in 1945 was very much below the pre-war level.

They, however, suffered much more in the post-war years during which period international strife, growing ineptitude and demoralization of administration, unbearable strain produced by hyper-inflation and of course, complete insecurity and uncertainty in regard to the future had a devastating effect on the industries as on the economy as a whole. The industries were, in a state of serious distress in 1949 owing to the paralysing effect of frenzied inflation, acute labour unrest, shortage of raw materials, contraction of markets, virtual collapse of the credit system and the extreme fear of the future; and without the assistance, which they received in a large measure from the new state, they would not have been able to retrieve the position. The figures already given in Chapter II (p. 30) shows the extent to which the production of the major industries suffered during the war and the post-war period.

Stabilization of prices, procurement and supply of raw materials, grant of credit on easy terms, assurance that increase in production would be treated as national service and expanding markets in the countryside owing to the agrarian changes and increase in agricultural output made it possible for their industries to achieve recovery in a relatively short time and the pre-war levels of industrial production was restored in less than three years and in some cases exceeded.

As stated above rehabilitation itself involved the use

of measures which bore upon them impress of the future; and as the pre-war industry itself was extremely backward and developed without any relation to the essential needs of the Chinese people, and primarily for their exploitation, it was necessary to plan for the future on a completely different scale and with a clear understanding of the new goal of economic development. Even before, more definitely, since 1953, first year of the five year plan—industrialization has become a great social adventure and the nation has embarked upon it not merely as a means of economic development but as a measure through which national destiny and the new social vision are to be realized. This view has been and is being impressed upon the masses with energy and purpose, is increasingly shared by them and has given them determination and drive in promoting and achieving rapid industrialization of the country. The rate at which industries have been and are proposed to be developed may be indicated by citing the figures of investment and their effect on the relative importance of industrial production in national economy. Investment in economic construction in the period of rehabilitation amounted approximately to 12200 million new yuans of which investment in industries was, roughly speaking, 4500 million yuans. In the five year plan the total expenditure on capital construction is estimated to be 42740 million yuans, of which investment in industries would be 24850 million yuans or 58.2. The increased industrial investment would of course greatly increase the value of industrial output and its proportion to the total national output. It is estimated to have risen already from 17 p.c. of the latter in 1949 to nearly 33 p.c. in 1954 and in 1957 the proportion is expected to be 36 p.c. The increasing importance of heavy industries in industrial production is indicated by the fact that they would represent 83.8 p.c. of the industrial investment in this period and 45.4 p.c. of the value of industrial output as compared with 39.7 p.c. in 1952. The rate of development has, in fact, been much higher and the total value of output by large scale industries in 1956 is estimated to be 53,580 million yuans which is nearly the same as the plan-

ned target of 53,560 million yuans for 1957; and the rate of increase of the output of these industries has been 18.7 instead of the planned rate of 14.7 p.c. In industrial production, in other words, the 1957 target has been fulfilled in 1956. This is true of industry as a whole but in some industries even the planned targets have not been reached.

Private enterprise in industrial production has, as pointed out later, been almost completely eliminated, and the proportion of production by state enterprise in industries, which was 37 p.c. of industrial output in 1949, rose to 48 p.c. in 1952, 62 p.c. in 1953, 75 p.c. and 84 p.c. in 1954. The fact that even in 1949 this proportion was a little less than two-fifths of the total industrial output was due to the confiscation of industrial investments of 'bureaucratic capitalists; i.e.—the well known four families, Chiang, Kung, Sung and Chen—who misappropriated the Japanese-owned capital after the war and otherwise enriched themselves by gross abuse of their political power. Later increase of the share of public enterprise is mainly due to the expansion of production by state enterprise and conversion of private industry into state-private joint enterprise.

It was originally proposed to construct 654 very large undertakings, including 156 which were to be built with direct help of the Soviet Union. This number was raised later to 800 including 49 more with the help of the Soviet Union, 205 in all. Besides these 2,300 other enterprises of moderate size were included in the first Five Year Plan. The relative importance of the basic industries can be measured by the planned increase in their production. Increase in the production of coal, for example, was estimated to be 53 million tons by 1957, and metallurgical machinery 70,000 tons, of power generating equipment 800,000 kilowatts, of power 2.05 million kilowatts, of steel 2.5 million tons, of motor cars 30,000 vehicles, of tractors 15,000, chemical fertilizers 280,000 tons and cement 2.4 million tons. Compared with 1952 production of steel, it was planned, would increase by 3.1 times, of electricity 2.2 times, of coal 1.8 times, of generation of power 7.7 times and of cement 2.1 times. In 1952, as stated already, the prewar level of pro-



duction has been restored and in some cases, exceeded in industrial production, and the expansion provided for in the plan, therefore, represents net addition to the industrial capacity of China. All the industrial projects undertaken under the Plan could it was known not be completed in the plan-period, but a very large number would be and the others would be in an advanced stage of construction. In regard to technique of production, the new industrial undertakings are intended to attain a high level of technique and automatization of machinery, utilization of the by-products, training of the technical personnel, full realization of 'external' economies by construction of 'combinates', i.e., of complexes of inter-related undertakings and incorporation of the latest devices, particularly from the Soviet experience. The more recently built factories are very well equipped and in their lay-out, working and management they are aiming high; and though owing to the lack of experience and technical skill, there are unavoidable short-comings, the Chinese seem to be determined to spare no effort to realize a high standard of performance in the construction, equipment, operation and management of their industrial enterprises. They want the very best in industrial technique in actual working of the undertakings: and though they know that they would require years to overcome their technical backwardness, they have an ardent faith in applying and developing the most modern technique in industrial production and are doing their best to live up to it. They do so because for them there is no antithesis between men and machines. The latter can be, according to their working faith, and have to be used for the former—for raising the level of happiness, material comfort and culture of men and they are determined to press machines fully into their service. China is to produce for the first time machines she has never produced before and expects that she will, before long, be able to manufacture steel and machinery-making mills, precision instruments machine tools of high order, powerful electric generators and transformers, construction machinery, cars, trucks, locomotives, rolling stocks, tractors, harvesters and combines—in short

all modern means of production—not only produce but also improve them. They have already achieved success which forms basis for their confidence, and having the humility to know that at present their technical level is low, their confidence is combined with the willingness in the words of Mao Tse-tung 'to become good pupils.' The development of heavy industries is for them not merely a technical proposition. The social necessity and implications of this development are, from their point of view, it may be repeated, of far greater importance and they are fully aware of them.

Industrialization is to be speeded up still further under 2nd Five Year Plan. The value of industrial output in 1962, it is estimated would be double that of the planned target for 1957. Value of the output of the heavy industries in 1962 is expected to rise from 38 p.c. to 52 p.c. of the total industrial output.<sup>1</sup>

Even in 1957, 62 p.c. industrial output in China including handicrafts production would if planned targets are realized, be produced by light i.e. consumer goods industries. This would mean fall by nearly 6 p.c. since 1952, but absolutely speaking, considerable expansion of these industries is contemplated and has been provided for. The total investment in their development, as stated above, was estimated to be only 11.4 p.c. of the total industrial investment in the five year period, but this would mean significant improvement in the living conditions of the people, and taking into account the contributions which the handicrafts are expected to make to the supply of consumer goods, the strain of accelerated development of heavy industries would, it is hoped, be materially reduced. In 1952 production of cotton cloth was 111,630,000 bolts (one bolt=40 yards) and is to

<sup>1</sup> The targets for 1962 as compared with the planned targets for 1957 (in brackets) are:- Electricity 400-430 million KWH (159), Coal 190-200 million tons (112), Crude Oil 5-6 million tons (2.1), Chemical Fertilizers 3-4 million tons (.58), Metallurgical Equipment 3-4 million tons (.8), Steel 10-12 million tons (4.12), Power Generating Equipment 15 million KW. (.16), Aluminium 100-120 thousand tons (20) and machine tools 60-65 thousand units (13). These are rough targets and have to be worked out more precisely, but indicate the order of magnitude of the planned expansion of the heavy industries by 1962.

be raised to 163,720,000 bolts in 1957, of mill-made sugar from 249,000 tons to 686,000 tons and of mill-made paper from 370,000 to 650,000 tons.<sup>1</sup> Even with this expansion per capita production of mill-made cloth in China would be in 1957 a little over 10 yards and the supply of sugar and paper would also be meagre. Similarly there is provision for expansion in the production of other essential commodities like kerosene, edible oil and salt etc.;<sup>2</sup> but even with this increased production the Chinese people will have to practise abstinence for attaining their targets of construction and large scale investment in heavy industries. There is no escape from the necessity of self-denial on a national scale in a period of construction during which the Chinese people intend to cover a track of a century or more in one or two decades. The knowledge that self-denial is practised by all and its outcome will be better, much better life for the masses, makes it easy to lead an austere life and work with hope and faith for the future. Industrial production of consumer goods is being so directed and regulated that it provides goods for consumption for the masses at prices within their means and production of luxury goods is being largely avoided. This again makes austerity more bearable and leads to the utilization of the limited productive resources essentially in the interest of the people as a whole. Great care is being taken not to carry austerity to the point of undermining health of the people and their spirit is being sustained by significant improvements in living conditions, by making liberal provision for their cultural deve-

<sup>1</sup> In spite of the reduction of proportion of the output of light industries from 62 p.c. to 50 p.c. of the total industrial output from 1957 to 1962 very considerable expansion of their output is provided for in the second Five Year Plan. The 1962 targets as compared with those of 1957 (in brackets) are - Cotton Yarn 8-9 million bales (5), Cotton Cloth 230-260 million bolts (160), Salt 10-11 million tons (7), Vegetable Oil 3.2 million tons (1.1), Sugar (including hand made sugar) 2.5 million tons (1.1), and Machine Made Paper 1.6 million tons (.65).

<sup>2</sup> The targets for increase of production of the following essential commodities in 1957 as compared with 1952 in percentages are: grain 13.3 p.c.; pork 5.7 p.c.; sugar 122.9 p.c.; cotton piece goods 55.1 p.c.; knit goods 105.3 p.c.; rubber shoes 69.8 p.c.; kerosene 143.5 p.c.; machine-made paper 89.2 p.c.; cigarettes 87 p.c.

lopments and for their healthy and stimulating entertainment and, of course, by appealing to and developing their social sense, i.e. solicitude for the interest of the community and understanding of its long term needs. In spite of these measures rationing on a national scale, as stated before, of these essential commodities has already been introduced and its further extension is held to be unavoidable. This point will be more fully considered later, but its relation to rapid industrialization of the country needs to be understood and its context fully appreciated. The Chinese people have to stint themselves and live laborious days in order to realize dreams and aspirations in regard to industrialization of their country. They know that they cannot combine accelerated industrial development with a rapidly rising standard of living. This knowledge is being interwoven into the whole fabric of their everyday life to reduce the real hardship of having to work for posterity. The fact that the masses are being brought into action i.e. being mobilized, is a decisive factor in creating the conditions which greatly favour the practice of abstinence essential for industrialization. The latter, to repeat, thereby become a social adventure and a great source of elation of spirit for the people as a whole.

A well-known illustration of national austerity of the Chinese people is the fact that almost all men and women have adopted national uniform of trousers and buttoned up coats made of blue utility cloth. This, besides creating a 'classless' society in sartorial habits, has made it possible for almost all cotton mills to concentrate on the production of regulation cloth and for the community to raise the clothing standard of the masses which is known to have fallen to incredibly low level. Now the Chinese people are, as a rule, in plain blue uniform—including their charming women—but all of them are well dressed, and generally achieve a high standard of cleanliness in their clothes. At first a visitor gets the impression of life being rather drab and colourless because of the nation being in uniform; but closer acquaintance with the people and a clearer understanding of the social context of this fact, gives it an entirely

different significance and replaces the initial impression by a sense of admiration for the people, the inner grace of whose life is even better shown by national austerity in clothing.<sup>1</sup>

The management of the state-owned enterprises is in the hands of a Director who is appointed by the state i.e. the appropriate ministry and is responsible to it for efficient discharge of his duties. The funds for equipment, expansion and working capital are provided from budget appropriations. Upto 1954, 10 to 15 p.c. of capital requirements of the state-owned undertakings were met from advance by the Peoples' Bank, mostly for working capital; but since then even these requirements are met from the budget allotments and the Peoples' Bank makes advances for short-term to meet the needs of the factories outside the credit plan e.g. to buy seasonal raw materials, additional assignment outside the Plan or to finance unusual accumulation of stocks. The funds are, of course, drawn by the factories from the Peoples' Bank against credits placed at their disposal from the state revenues and all receipts are deposited to the firm's account and are under the control of the Treasury. The Peoples' Bank enforces the implementations of each state factory's plan through its drawing of funds or deposits of receipts and exercises vigilance with regard to production and turn-over of goods, planned costs and profits and the expenditure for meeting wage-bills. The Director is personally responsible for expenditure according to the budget provision. Plans for expansion or improvement are, in accordance with the central directives, prepared by the Director both in their technical and financial aspects after discussion with the workers' representatives and are forwarded to the bureau of the Ministry concerned for approval and incorporation in the state plan; and when it becomes an operative plan, it is broken into specific assignments of the

<sup>1</sup> In 1955 a drive was launched to bring, colour, variety and elegance particularly into feminine dresses. This is a move in the right direction and is a fruit of the general improvement in economic conditions. This change, however, does not require any material modification of the general statement in the text that austerity in dress and otherwise is the rule in China.

shops, the brigades and the individual workers and its implementation is continuously kept under review in order to make sure that it is adhered to in practice or deviations from it are satisfactorily accounted for, and the major ones receive prior approval of the administrative authorities. Each enterprise has its ex-factory price based upon planned costs which cover cost of raw materials, wage bill, depreciation allowance and planned profits, and each factory has its own planned ex-factory price to which commodity and business taxes are added before it is sold to the state trading organization, and ex-factory prices are not and cannot be the same. Differences in location, differences in the cost of raw materials owing to the variations in the cost of transportation, differences in equipment and the types of machinery or lay out of the factory, differences even in the skill and experiences of the workers or the differences due to other variables, the planned costs and therefore the ex-factory prices of the different state enterprises are different; but the state trading organization has to work out planned market prices by pooling and equalizing of planned factory prices and the commodities as a rule have uniform prices all over the country. In spite of these differences, norms of cost i.e. standardized costs are being suggested and evolved through experience, and it is one of the prime duties of the management and the workers to reduce them as far as possible. For this purpose cost-accounting is made an important feature of industrial management, the experience of other firms or even other countries is drawn upon and the workers are invited and encouraged to understand production methods of the more advanced type and to make their own contributions to the reduction of costs and improvement of the production technique by suggesting economies or better methods of production. These norms are being evolved and improved and become the standards to be maintained or raised; and the success of an industrial director is measured—though that is not its only criterion—by the extent to which he can reduce planned costs and raise the level of production. The standardization and reduction of costs has received very great attention of the

administrative authorities, the management and the workers, a large measure of success has in fact been achieved in this respect and it has become one of the very important sources of capital accumulation. The standard of management in China, it is reported, needs to be greatly raised because of the limited experience and technical qualifications of the managerial personnel; but all the same there has been no diffidence in expanding industrial production or undertaking entirely new and more complicated lines of production owing to any bottleneck created by the shortage of the persons required for key positions in industrial managements. Faith, willingness to learn, expansion of training facilities and foreign technical assistance have, taken together, made it possible for China to carry out a programme of rapid industrial expansion without committing any irretrievable errors or running into any insurmountable difficulties. The industrial entrepreneurs in the state enterprises have, in fact, earned credit for themselves and rendered great service to the country by the general standard of their performance and the spirit with which they have been animated in discharging their functions. There have, to repeat, not arisen serious managerial bottlenecks in carrying out the industrialization programme of China and her experience has great value for the other countries, including India, which have been technically backward in the past but are not deterred by the challenge of the future.

The director of a state enterprise is given and exercises undivided authority for the management of his factory, but he is required to exercise it in a 'democratic' manner, and a director who merely relies upon 'commandism,' i.e. the issue of orders which the workers are required to carry out without demure, disqualifies himself for his position. It is one of his essential functions to win the confidence and co-operation of the workers, discuss his plan and their actual execution with them, invite and pay heed to their criticism and be prepared to own up his mistakes, i.e. practise self-criticism, discover new talents among the workers, give them opportunity for further training and promote them to the

higher position for which they are found fit, maintain human interest in and contact with the workers and make their well-being one of his primary concerns. The range of differences in remuneration exist and are related to the quantity, quality of work and the degree of responsibility of the duties. They are taken to be justified by the principle of 'payment according to work' on which the income structure of the state-owned enterprises is based, but are not meant to develop into social divisions and the industrial managers are not and cannot be a class apart. It is necessary for the latter to invite from the workers what are called 'rationalization proposals'—i.e. the suggestion for the reduction of cost, the improvement of technique and the elimination of waste—have them very carefully examined, adopt those which are judged to be suitable and beneficial and award due credit to those who make such proposals. The proposals, which are of wider import and capable of general application, are reported to the higher authorities and a large number of them have been adopted on a national scale. In other words, the director has to stimulate and develop what is described as 'the creative initiative of the workers.' He has also to acquire a clear grasp of 'the general line of social transformation and impart, as far as possible, its understanding in its practical application to the workers. Attainment of a high level of technical efficiency in production is essential for the director; but being responsible agent of a social revolution and also its product he has to make social well-being of the workers and their full co-operation in the task of realizing the aims of the revolution his all-absorbing quest and endeavour. The director of a state enterprise in China cannot merely direct and control; he must get the workers of all grades to identify themselves with the objects of the revolution, work together in harmony and with understanding of their tasks and realize that they are both the makers of the revolution and its greatest beneficiaries. The director in these undertakings is, therefore not a mere manager or captain of industry, he draws inspiration from the revolutionary situation and has himself to be a source of inspiration for the workers. This conception is not fully realized



in practice and perhaps not even clearly understood in all cases, but a new social archetype is being developed in the execution of the industrial programme of China and is increasingly influencing and shaping the pattern of behaviour in industrial management of public enterprises. This is a very significant aspect of socialist industrialization of China and needs to be clearly appreciated.

These advances in construction, production, technique, labour productivity and management cannot be taken to imply that industrial economy of China is free from serious defects. That it is not; and the fact is receiving its due emphasis on the part of administration. Mr. Chou En-lai, for example, in his report to the National Peoples' Congress in 1954, pointed out to a number of serious short-comings of industrial organization and management. He referred to considerable proportion of the undertakings having failed to realize the planned targets and their overfulfilment in a number of cases being due to initial targets having been fixed unduly low, to the lack of co-ordination in planning and the emergence of bottlenecks on that account, to a large amount of waste in many departments and enterprises and loss of enormous amounts on that account and to the practice of giving insufficient consideration to the question of utilizing the limited technical personnel to the greatest advantage. That such serious evils still persist is indicated by Mr. Li Ful Chun, Chairman of the Planning Commission, in his report on the First Five Year Plan to the 2nd session of the National Peoples' Congress in July 1955. According to him, quite a number of Government workers have forgotten the revolutionary tradition of hard struggle, are prone to lose sight of the vital fact that long, self-sacrificing efforts are needed for socialist industrial construction and violate state regulations on practising economy and business accounting. That means, of course that the real revolution has just begun is not realized by these 'government workers' and they are disposed to rest on their laurels. Further, it was also pointed out by him that there was a great deal of waste in construction, there was tendency to spend large amounts on facades and furniture, construction plans were not properly prepared

and were not related to production-plans and the designs of equipment and machines were not fully utilized, quality of production was not maintained and rejection of products, owing to their not conforming to specifications, had assumed large proportions, mismanagement had led to unnecessary stock-piling of raw materials and finished goods, overbudgeting was common in order to cover the consequences of negligence and inefficiency, many organizations were overstaffed and large scale retrenchment in the interest of efficiency of production and reduction of cost was found necessary and desirable.

The defects have been frankly admitted and the people have been exhorted to realize their gravity and work for their removal, and measures have been taken to prevent the rot from spreading further. The planning and administrative authorities have to make allowance for the magnitude of the task and the comparative lack of skill and experience on the part of the executive and technical staff officers; but revolution cannot afford to relax vigilance against the laxity, indifference and incompetence of those whom it places in authority, and its future in China would be determined as much by its ability to check the growth of such evils as by its preparedness to meet the attacks of counter-revolutionaries and avowed foreign enemies. This internal struggle has also to be a continuous process and would have to be intensified as the pace of development and the complexity of economic administration make greater calls on the ability and resourcefulness of the men who have to steer the economy through the enormous difficulties inherent in the great task of socialist transformation. A revolutionary administration can vindicate itself only by its principle agents being above suspicion and equal to the tasks which the necessity of making profound social changes impose upon them. It would have been more than surprising if new Chinese industrial economy had not developed these internal strains and stresses. It has so far solved its problems with success and its achievements have brought it great credit; but now higher creative intelligence, even greater revolutionary zeal, is needed to carry out the new tasks; and

for that purpose it is essential that its apparatus of economic administration should develop its own internal checks and be more than ever self-propelling.

Irrational concentration of industries in China, which has been referred to a number of times, needs to be redressed by rational planning. The existing industries have to be fully utilized and as a rule, the old factories cannot be moved from their present sites and re-located elsewhere; but a more balanced industrialization of the country requires that new factories should be built in the areas which have remained industrially backward in the past owing to unmerited neglect, but are potentially capable of being industrially developed. Rational location of industries is inherent in planned development and is being realized by building new factories in the Provinces in which there was practically no industrial development in the past. The textile industry which had been concentrated in centres like Shanghai and Tienstin, is now, for example, being decentralized and new large, modern, fully equipped textile mills are being built in Shensi, Hopie, Honan, Sinkiang and Schzuan which produce raw cotton and can provide market for the textile products. Anshan in Manchuria, which was an important centre of steel production, has been greatly expanded and its technical equipment raised to a much higher level; but the development of two new steel producing centres, one at Tayeb in central China and the other at Paotow, in Inner Mongolia, has been included in the First Five Year Plan and it has been decided to construct iron and steel complexes there. Three new industrial centres—one in Honan, second in Hopeh and third in Hunan—are to be built in Central South, which had hardly any pre-war industries, machine building, including tractors and automobiles are to be constructed, one million spindles are to be added to the textile industry and, as stated above, a large iron and steel complex is to be set up at Tayeb in Hopeh province, i.e. it will have its own smelters, rolling mills and chemical plants and its steel plants will supply the new machine building industries in Central South China. Similarly North West China, through which a new railway line is be-

ing constructed, is known to have great industrial possibilities which it proposed to make the most of. The oil industry of this area is its most important asset; but many other industries can be and are being built in this vast area and are likely to make it an important industrial base for China. Geographical decentralization of industries has been made one of the basic tasks of the plan now in operation, and out of 694 major industrial undertakings, which are to be built in the five year period, 472 will be located in the interior i.e. the hinterland which had no industries to speak of in the past. The North-East, which had been developed by the Japanese for their own ends, will continue to retain its industrial importance, its steel works at Anshan, its shale oil industry, coal mining and several industries including machine building, will increase its industrial importance and it will remain a great source of economic strength for the country as a whole. This rational distribution of industries will, it need not be added, have far-reaching social consequences. It will bring about economic integration of the country, the levelling up of the different parts will create a greater sense of national unity and, of course, make it much easier to bring about wide diffusion of emergent new culture of China and enable each part to make its full contribution to its development. The natural resources of China are very considerable, varied and widely distributed and provide a basis for all-round diversification of her economy which can be carried out if in the location of industries technical, social and economic considerations are given their due weight. Planned location of industries in a vast country like China has to be carried out empirically owing to the necessity of combining and balancing economic and technical considerations with as much care as possible in the making of the location plans. The pace at which the development is being carried out in China and the need for quick decisions make it unavoidable that some mistakes in developing new industries should occur. Time will be needed before the correctness of the decisions taken so far can be fully tested; but there can be no difference of opinion in regard to the need for rectification of the distortions of

the past and development of the industries in the hinterland. This object is being fully kept in view and very largely realized in practice.

Accelerated industrialization of the country makes it necessary to increase rapidly the trained personnel for industrial management, to promote the application and development of advanced technique and installation and maintenance of new, modern equipment. The trained personnel of all grades would be required for a large variety of purposes. One of the most valuable forms of aid by the Soviet Union to China is the assistance which the Soviet experts have given and are giving for the establishment and development of her new industries. China is vividly aware of her technical backwardness for the enormous tasks which she has undertaken and is eager to overcome it as soon as she can. This problem is really a part of the large problem of finding qualified personnel not only for industrialization but for economic transformation and development of the whole country—i.e. the cadre not only for her industries, but also for socialist transformation of agriculture, commerce, banking and for co-ordinated planning, supervision and execution of her economic policies at all levels. Socialist transformation of economy requires economic administrators very different from the ordinary managerial personnel in a private-enterprise economy; and though, as stated before, the lack or shortage of it has not inhibited the undertaking and execution of comprehensive economic plans in general and industrial plans in particular, there is nevertheless urgent need for training managerial staff and highly skilled labour on a large scale and for the implementation of the first five year plan and accelerating further the rate of transformation and development of the economy in the second and third five year plans. The importance and urgency of the problem are, as stated above, clearly understood and appreciated and suitable steps are being taken to solve it competently and with as much expedition as possible. It has been estimated that briefly speaking about two and a half million cadres of all grades would be needed in the development and administration of the eco-

onomy in the current plan period and cannot be provided without very strenuous efforts.

It is necessary to describe how the managerial personnel are recruited and from what sources, and how they are trained. The statements in the following paragraphs apply to the whole field of economic administration including industrial management for the latter is only a special case of the former.

Before the sources of recruitment of the technical and administrative personnel are described, it is important to explain one aspect of the programme which is of fundamental importance. Mr. Li Fu-chen, Chairman of the Planning Commission in the Report referred to above, stressed the point in the following words, 'We must also see that political consciousness of our scientific and technical personnel is raised steadily in the course of their work, so that they may develop the outlook of men dedicated to working whole-heartedly for the people, serving the needs of the country's construction and unafraid of the difficulties or hardships.' It is realized that the persons merely with 'career' mentality are completely unsuitable for the needs of the new economy and can and should have no place in it. Understanding of its aims, conviction that these are of paramount importance and unswerving loyalty to them in thought and work matters, are, from this point of view, far more essential than technical qualifications, competence and experience for the building up the new economy. The importance of technical efficiency is not under-rated on that account and, as the economy develops it is being emphasized more and more; but it still remains true that the great impetus which it has developed from within and which is being maintained with success, is due to the firm conviction that the men matter much more than machines and technique i.e. the men who believe ardently in the prime need for socialist transformation of the new economy and maintaining intact, in practice the purity of its aims and purpose. This being so, very great care is being taken in selection of the cadres and their training for preserving unimpaired their allegiance to the revolutionary purpose of the eco-

domy in the making. All cadres, old and new, have to acquire a clear grasp of Marxism and Leninism, and its application to the Chinese conditions. It is realized that in practice this can mean in some cases rigidity in outlook, mechanical application of the doctrines and also formal adherence to them without genuine honesty in belief and behaviour. The danger does exist and is intended to be met by continuous vigilance and scrutiny of the cadres in the performance of their duties, the development of true *esprit de corps* and a code of conduct which would carry in itself its own sanctions. In spite of all these precautions opportunism among the cadres cannot be completely prevented; but the general standard of performance, from the standpoint of social integrity, has not been undermined by it to any significant degree and they have in practice, shown according to reports and observations of many competent assessors of the new economy, a real spirit of consecration born of intelligent understanding of the theory of socialist economy and loyalty to its cardinal principles. A social revolution, it is firmly believed, can be successfully carried out, developed and completed only by the men for whom it is, generally speaking, the one way out of the darkness of the past, and who regard themselves as the custodians of its future. Knowledge of this belief is the key to the understanding of the theory and practice of policy-making and administration in China. This belief has its limitations and can, in its unbalanced form, imply exaggerated importance attached to the doctrine of 'salvation by faith' in its application to social revolution; but that the execution of a revolutionary programme can be and should be entrusted only to the confirmed and true revolutionaries and in other hands it is likely to miscarry grievously can be conceded even if one does not accept the Marxian assumptions of this view. It is plain commonsense and is borne out by the experience of many countries that revolutions can be made and matured by true revolutionaries and without them they not only cannot produce the desired results, but are more likely to produce their own antithesis.

It is necessary to explain how the technical intelligent-

sia and the topmost administrators of industry in China are recruited, trained and keyed up. There are four sources from which technical personnel are drawn at present. The first source are the technicians and the intellectuals trained for and under the old economy. Their technical knowledge and experience are of great value to the new economy, and it is realized that they have to be utilized as much as possible. Great pains have been taken to win their confidence, to create for them a sense of security and to treat them with deference due to them on the condition that they should serve the people faithfully i.e. work honestly for building up the new economy. The process of re-moulding their outlook has involved special technique of its own which in the hands of the men without real perspective or understanding has at times meant the use of the methods of mass suggestions without knowledge of their limitations and there have occurred cases in which the technique has failed owing to its own inherent defects. The need of re-orientation of re-moulding, however, of the old intelligentsia undoubtedly did exist for a large number of them by their origin and connection belonged to the class of old scholars and landed oligarchy and had for centuries been the main prop of the old society. Most of them have made the necessary readjustment and know from personal experience how much better the new economy is for the well-being of the masses and the future of the country. Some of them are working without conviction, but most of them fully support the new system and are doing their best for it. The relative importance of this class is decreasing owing to the rapid growth of the new intelligentsia, but they are nevertheless still important and their support has been of real assistance in early stages of the revolution.

The universities and institutes of technical education have been the second source of the recruitment of cadres. The young graduates of the universities, technological institutes and vocational schools have been largely taken into mines, factories and economic organizations, new technical institutes have been opened and the training facilities of the old ones greatly expanded, specialization has been promo-



ted, the standard of training raised and the system of education completely over-hauled with emphasis on practice and the courses being co-related to the actual needs of the expanding economy. A large proportion of entrants into these institutions have been drawn from the peasants and workers, the proportion has risen from 17 p.c. in 1949 to 33 p.c. in 1954 and is still increasing. Through short-term schools specially meant for workers who had actual experience of production but no schooling, and spare-term schools attached to factories and mines, workers and peasants are given assistance to qualify themselves for entrance into the higher institutes and the model workers and the old revolutionary cadres were specially encouraged to avail themselves of higher courses of training. Special institutions like the Peoples' University Peking or Economic and Finance Institutes in Provincial capitals or industrial centres have been established to train young men and young women for position of authority in economic administration and are being trained in planning industrial management, business accounting and statistics; and a large proportion of the students in these institutions are drawn from workers in mines, factories, state trading organizations and economic departments of the state. The proportion of girls in the higher institutes has also risen and now—even in technological institutions their proportion is not unoften about one third and they are reported to be doing well in the period of training and in actual work. In all these institutions courses in Marxism-Leninism, history of the Chinese revolution and the line of socialist transformation are compulsory; and interest in and understanding of the basic social issues are an essential element in the training of engineers, chemists, geologists, architects, accountants, statisticians and economic administrators of all grades. The underlying principle of the new education being the combination of theory and practice, both teachers and students are expected to enrich their theory by first hand experience of productive enterprises and as far as possible, cultivate and develop the habit of co-operative work. The targets for 1957 for training graduates in these institutes is 434,000 which is 127 p.c. more

than the number in 1952 and the increase in the number of engineering and technical graduates is 5 to 6 fold and corresponding increase in junior grades of technicians has been provided for. Higher education in China was upto 1955 not only free i.e. no tuition fee was charged, but the entrants were given free board and lodging and, in case of need, allowance is given also for other expenses. Since, 1955, however, those, who can afford to pay are required to pay for their board, and only tuition and lodging are free for them. Revolutionary cadres and men and women, who owe their selection to their excellent record in production, continue to receive their wages and salaries or the greater part of their income during the period of training at the higher institutes and they are relieved of any worry for their families. Expansion of technical and other higher training is being made, as far as possible, on the basis of the estimate of needs in the different industries. The large scale unemployment among the college graduates in the old economy has been replaced by almost all round shortage of trained personnel; but planned expansion of technical training requires that it should be directly related to the planned industrialization of the country and there should be no gap between output and needs. There is need for perfecting the technique of man-power budgetting, but its essentials are understood and are being kept in view in the expansion of technical education at all levels. Liberal education, in the traditional sense, is now provided for by making it a part of all education including technical education; but all higher education has now become professional education and has to be planned in relation to the concrete needs for trained personnel. Equality of opportunity has been specially created and developed in the new system of higher education, leaders in industry, as in the economy as a whole, are being drawn from all classes of the nation and vast resources of ability and initiative never used before are being freely and fully tapped.

The industries themselves are the third important source of industrial cadres. The trained personnel in the

existing industries have trained men and women under them to take their place, carry on and increase production and thousands of them have been transferred to new enterprises to build them up, to train new cadres and to excel themselves by raising their technique and mastering better equipment and tools of production. The old guard from Shanghai, Tienstin, Anshan, Mukden, Fushen, Hankow have answered the call of industrialization, contributed greatly to the development of new industries in new areas and are reported to have risen to higher level of initiative, organizing ability and leadership of workers. From among the workers themselves through emulation drives, encouragement of model workers and provision of scope for and initiative and inventiveness, new leaders have been thrown up who by stages have risen to responsible positions in industry. Through spare time and short term schools they have acquired technical qualifications for the higher positions; and with greater awareness of the social implications of their new tasks they have given a good account of themselves as industrial leaders and shown qualities which, in the new social context, have a value and meaning of their own. Some of them have, after the required training, gone right to the top, many more have occupied intermediate or junior supervisory positions, but the bracing effect of rapid upward economic mobility has been felt by the industry as a whole; and the fact, that merit counts and nothing but merit counts, has become an incentive of great importance, has widened the horizons of the workers and increased production and productivity very significantly. Socialist industrialization has created new and expanding needs, but it has also created new and expanding opportunities, which have called forth new ability and created scope for its utilization in an atmosphere of social emulation and concerted social endeavour. These cadres are, as stated already, working with a new spirit and have a different conception of success in their career. Their income rises with the increase of responsibilities but they are learning to recognise and respond to social incentives and realize that their social function has far greater importance than the income which they derive

from it in the new society of which they are both the products and the builders.

The fourth and, in a sense, the most significant source from which the leaders in industry have been drawn is the class of old revolutionary cadres who have been transferred to managerial posts in industry in very large number. For example, from October 1951 to October 1952, 54,000 men and women, who had won distinction in revolutionary work in the resistance or struggle period, during land reforms or in various mass movements, were transferred to industry and placed in positions of authority. The process is still going on and industrial cadres are being drawn from this field. Re-distribution of revolutionary cadres has been a continuous feature of the new economy and they have been assigned and re-assigned to new tasks in the periods of rehabilitation and construction. This practice in the face of it is open to serious criticism for the appointment of 'veteran' revolutionaries to the posts, which require highly specialized qualifications and experience, can be taken to imply disregard of the needs of productive efficiency for political considerations. How can these men or women, howsoever creditable their records as revolutionaries, undertake the responsibilities of management of industrial enterprises without any previous knowledge and experience in that field? Rhetoric of the question contains its own answer and conveys condemnation of this practice; and yet it is reported that it (the practice) has given good results and these cadres have been able to expand production, raise the level of efficiency of the workers and produce in the enterprises a sense of mission which is essential for their success. The reasons given for the achievements are that these cadres have been, to use the common word, "steeped" in the struggle, are undaunted by new tasks and their difficulties, are capable of great initiative, can maintain contact with the masses and win their confidence and being true to revolution they can fulfil its purpose through these factories, i.e. make them real instruments of socialist industrialization. The success of the revolutionary cadres is taken to depend upon this knowledge of their

limitations, their ability to give to the technical staff their due place in the management of the enterprise and to leave the decision which must be theirs to them; but they are in the position in which they are placed because they are experts in their own line i.e. in developing social dynamics of the workers, in bringing out and making the most of their abilities and in making their factories organs of the economic policy of the state. These veteran revolutionaries are not only managing industrial enterprises, but they also hold key positions in the entire field of economic administration, and without them the new economy would not have developed its drive or produced such beneficial results in the life of the masses. In due course industrial management would be professionalized and the revolutionaries as such have no place in the operation of the factories; that would happen when the revolution has fulfilled itself, its objects are fully incorporated in the system of economic administration and primary concern of industrial management becomes the attainment of the highest level of efficiency for the benefit of the people and in the interest of the community. As that is as yet a distant goal, in the present phase of social transformation revolutionary experience and earnestness are, it is believed, needed in industrial management and other key positions in economic administration and the persons with that record are being largely utilized in social transformation and economic development of the country.

Probably this point may be better appreciated if illustrations drawn from personal experience are cited. Three cases are given here but many more could be given for scores of such cases are known to me personally. A lady aged thirty-four is director of Pneumatic Tool Company in Mukden. In 1954 she was transferred to this factory from a textile mill in which she acquired some experience of industrial management. Born in Honan she was, after finishing senior and middle school education, drawn into revolutionary struggle and worked with the liberation army in Hopei. A very earnest, straight-forward and essentially human person she was reported to have created great enthu-

siasm for production and with the assistance of a Soviet lady expert raised its level and organized groups for the study and development of technique. Mother of four children and wife of an army officer she was combining normal home life with her duties as director of this factory; and the combination, according to her, was good both for her work and home. She was drawing a salary of 120 new yuans p.m., which was a little less than the salary of the engineer who was drawing 150 new yuans. Average monthly wage in this factory was 50 yuans and the lowest 30 yuans. The factory at the time of the visit was being expanded but there were already 2300 workers in the factory and they, through the Trade Union and otherwise, were developing interest in and knowledge of the new technique. Most of them were about 20 years old and the director had no difficulty in establishing full accord with them. The second case is that of the Deputy Head of the new Harbour about thirty miles from Tienstin—Tangko—who was appointed to his post in 1952 but up to 1950 his experience was confined to guerilla fighting in the provinces of Shensi and Honan which he joined in 1927 as a lad of seventeen. The new harbour needs breakwater which had not been completed in 1954, but it is now gaining in importance. Its dock labour has been de-casualized, the workers were given 30 new yuans p.m. even in off seasons, but their average wage amounted to nearly 70 yuans p.m. Scales for the other workers vary from 40 to 400 yuans p.m., the average being 60 yuans. The Deputy Head was keen on learning and mastering his work, had been able to develop social amenities for the workers and model workers in the harbour and one model group had been successful in raising their technical level. He gave the impression of being a quiet, capable, confident officer, fully conscious of the importance of the new harbour, the need for satisfying the human needs of labourers and raising the level of their social outlook. The shortcoming of the administration more than its achievements were his main pre-occupation and he was hoping that these would soon be removed. Another guerilla fighter also from Honan was in 1954 director of new state-owned

No. 1 textile mill in Chenchow, (Honan) which was started in May 1953 and completed in July 1954. It is equipped with automatic machines, the rooms are air-conditioned and production from the input of raw cotton to the output of cloth is one continuous process. The director was placed in charge of the mill as soon as its construction started, he had previous experience as a trade union organizer and also in a textile mill in Hankow, but his main asset was, according to him, his revolutionary experience and willingness to do his new assignment with zeal and earnestness. Nearly forty years of age, he had in one year developed social amenities in the mill with great interest and in December 1954, it had a hospital with a doctor and 10 nurses and a good maternity section, a large dining room for 1500 workers, one special dining room for Muslim workers, a rest room for expectant mothers and a suckling room for 80 babies, 22 spare time classes, 4 dramatic groups and basket and volley ball courts with flood lighting, reading room for 200 readers and general labour insurance regulations. Owing to the reduction of cost below the planned target 70,000 new yuans have been made available for welfare fund and the aggregate production cost and production cost per man-day had been materially reduced. This old guerilla fighter was managing a new and up-to-date mill of 50,000 spindles and 1584 looms, promoting the well-being of the workers and the interest of the community and showing a keen understanding of the essentials of socialist industrialization and the capacity to share it with the workers in a spirit of real fellowship. These three cases were typical of many more with whom personal contact, brief but very worth-while, could be established in a visit of four months. These cases were not even most outstanding cases, they represented the new norm in industrial management which is being built up. These veteran revolutionaries have made good in industrial management, and though they, as stated above, in due time will be succeeded by the graduates of the Industrial Administrative Institutes or by the industrial leaders who work their way up in production—the traditions established by these men and women

would, it may be hoped, become living principles of economic administration and the basis of a well-developed socialist society. These veterans have in their time had varied assignments and have generally speaking thrown themselves into their work with complete devotion and self-effacement. Their contribution to socialist industrialization cannot be over-rated.

The state-owned, the jointly operated and the co-operative enterprises which represent public sector of industry, are, as stated already, increasing in importance and, in 1957 it was expected to become the dominant section and private enterprise would represent only 12.2 p.c. of total industrial production. The growing importance of public sector in industry being the policy of the state, the fact is a measure of the success of that policy and of social transformation in the national economy. In 1949 production in private sector was 63.3 p.c. and in 1952, 39 p.c. In 1955 it has dropped to 16 p.c. and in 1957 the proportion was, as just stated, expected to be 12.2. This is largely due to the more rapid expansion of state enterprise. In 1952 the proportion of the state owned enterprise in the total industrial output was 51 p.c., in 1953, 53 p.c. and as stated before, in 1955 rose to 63.6 p.c. The output of the co-operative factories was 3 p.c. in 1952 and 1953 and in 1955 it rose to 4.7 p.c.; but the proportion of the jointly operated industry which was 5 p.c. in 1952 and 6 p.c. in 1953, rose to 16 p.c. in 1955 and, to 31.13 p.c. in 1956. The conversion of private enterprise into jointly operated enterprises became since 1953 an important objective of state economic policy and was pursued with great earnestness. This was the highest form of 'state-capitalism' and was adopted to transform private enterprise into a socialist enterprise, and the reduction of the proportion of industrial output of private sector from 1952 to 1956 was, besides the expansion of state enterprise itself, due to this process of conversion. In the jointly operated undertakings the state contributed a share of capital, appointed its representatives on the board of directors, placed capitalists and the agents 'under direct leadership of the state-economy—i.e. the guiding principle of management was expansion



of production and fulfilment of the demands and plans of the state', and the status of workers was assimilated to their status in the state-owned enterprises. Assumption of direct leadership by the state did not involve the state acquiring at least 51 p.c. of the share capital of the jointly-operated enterprises. This practice would have been alien to the purpose of the new economy and was not adopted; and the state's determinant voice in policy decisions of these undertakings was derived not from the proportion of its investments, but its position as the ultimate guardian of the interests of the community. The dividends of share-holders, whether state or private, were limited to 25 p.c. of the net receipts and the rest was appropriated for taxation, expansion of production and the improvement of the workers' well-being. This change meant that the erstwhile proprietor or managing director became an agent of the state policy; and though the property rights were not affected thereby, the privileges inherent in them were definitely curtailed. He could advise in regard to investment, production and organization but did not make final decisions in these matters. These enterprises were subject to unified planning and control by state organs. The joint operation of industrial undertakings really amounted to the public management without public ownership, and was a real advance towards socialism.

Private sector is not only a dwindling section of industry but is subject to various forms of regulations and control which brought it within the range of 'state capitalism.' In December 1953 there were about 200,000 private factories with 2,750,000 workers; and 90 p.c. of them were small factories i.e. they employed less than 16 workers in case they used power and less than 30 workers when they did not. These numerous industries were subjected to public regulation in the interest of unified planning and the most important measures of control were that they were largely dependent upon the state-trading organization for their raw material and they produced either to state orders and specifications and a very large proportion of their goods was taken over by the state

for marketing at stipulated prices. In 1956, for example, 32 p.c. of the total output by private factories consisted of goods ordered, distributed or purchased by the state. Both for the purchase of their raw materials and the sale of their commodities they entered into contracts with the state trading organizations, and though the prices in these contracts are negotiated, in the last analyses they are fixed by the state. For their credit also they were dependent mainly upon the state banks; and in their internal administration the trade-unions, which are affiliated to the national federation and carry out common policy, had an important share and exercised powers of what are called 'mass supervision' i.e. they watched their administration to ensure that it did not diverge in any important respect from the policy of the state. In regard to wages, labour welfare and social insurance private industry had also to carry out the national policy and had no autonomy of decision and judgment; and lastly in the distribution of income the private undertakings had to follow public regulation, and besides meeting their tax liabilities, which amount to 33 to 35 p.c. of their receipts, they had to make liberal provision for improvement of the workers' conditions and reserve for expansion of production. Profits varying from 10 to 30 are permitted and as a rule, as stated before, amounted to 25 p.c. but with all the limitations under which they have to operate, the element of exploitation was reduced to the minimum in the management of these enterprises and they had to function within the framework of the economic policy of the state and serve the public interest. *The new economy brought them advantages in regard to the supply of raw materials, marketing of their goods, price stability and co-operation of labour in maintaining and increasing production. It also reduced their risks, increased their sense of security and practically eliminated the vexatious problems of labour conflict; but all these advantages were made available to them on condition that they carried out faithfully decisions of the state in relation to the economy as a whole and were prepared to accept and participate in the eventual emergence of a fully developed socialist economy.*

Besides public regulations and control of private enterprise, mainly through administrative measures, self-regulation of industry was attempted through a nation-wide organization of private industry and commerce. This organization was known as the Federation of Industry and Commerce, mainly consisted of the representatives of private trade and industry, though the state and co-operative industry and commerce were also represented on it for consultation and co-ordination. The organization had its National Congress, Provincial Congresses and local Congresses down to the Hsien or county level. In the primary or Hsien there was direct participation of the members and members of their executive bodies were also directly elected, but the Provincial and National Congresses were assemblies of representatives and the representatives to the National Congress were elected by the Provincial Congress. The principle of direct election at the basic level and indirect election at the higher level which is applied all through in all representative institutions in China, including the National Peoples' Congress, was also applied to this organization. At the basic level each trade and industry had also its own guild which is, as is well known, an ancient institution in China, had survived through the centuries and continued to exercise a real power in the Chinese economy. They were given a place in the new economy of China in the transitional period and were utilized to bring numerous local trades and industry into the mainstream of the new national economy. They were affiliated to the local congresses of this organization, represent their views in regard to the matters of special interest to them and the state regulations relating to production, standardization and prices were framed in consultation with them and administered by them subject to the supervision of the Federation of Industry and Commerce and, of course, organs of the state.

This organization had double function—to represent the point of view of private trade and industry to the state authorities, to explain to them their reactions to the various events and measures and offer advice before the state policies in relation to them were finally adopted. It also pro-

tected the legitimate interests of their members, promoted new technique in production and assisted them in getting credit, raw materials and new equipment and also in improving their internal organization to make it more efficient and adequate in the new economic context. The more important function of the organization, however, was the diffusion of the knowledge of the object and content of the state policies among private firms, enlistment of their co-operation and interest in their implementation and avoidance of any measures which might create impediments and complications. This organization was avowedly intended to bring private trade and industry into the general line of social transformation and enable them to play a constructive role in the transition period. The goal of the new economy not being at all in doubt, organized strength of private sector was intended to be used for making the passage to it as smooth and painless as possible and remove any difficulties due to the lack of understanding of state policies, the adherence to the practices inherited from the past but no longer suitable to the new needs and objectives and the survival of attitudes developed in the old acquisitive society. This organization was constituted in October 1953 functioned for a couple of years until the conversion of entire private trade and industry into state private joint enterprises made it almost obsolete in 1956.

The conversion has carried the process very much further, private enterprise in trade, transport and industry has practically been eliminated and ex-proprietors have now no share as such in the management of enterprises in these sectors. Owing to extensive regulation of private trade and industry and a complete change in social milieu the logic of the new economy made it clear to private traders and industrialists that it was in their interest, as that of the community, that the transitional stage should be shortened as far as possible; and in the course of about a year, i.e. from the end of 1955 to that of 1956 virtual transfer of private property and management in trade, transport and industry to public sector was completed. Value of private investments in these spheres was assessed according to the general

cannons laid down for the purpose, the ex-owners were given the right to draw, generally speaking, 5 per cent on the assessed value of their investments and in a large number of cases they were employed in managerial positions at different levels according to their qualifications, ability and experience. The new enterprises, though still called state-private joint enterprises, are not jointly owned; they are essentially different from previous enterprises of the same name. They are owned, operated and completely financed by the state, they have been re-organized, the old owners have, as stated above, been given managerial positions as far as possible and are undergoing a process of re-education needed for being fitted into a rapidly-developing socialist economy. Re-education, or remoulding—the word more commonly used—would necessarily take time, and the 'old hands' would in most cases be guided more by discretion than by a real 'change of heart' in making the re-adjustments. Peaceful transformation of trade, transport and industry has, nevertheless, been brought about, sons and daughters of the 'national bourgeoisie', as these merchants and industrialists were generally called, would, it may be assumed, be fully assimilated and play their part in the development of the socialist economy. The national bourgeoisie were distinguished from compradors and bureaucratic capitalists in the objective assessment of the pre-revolutionary economic hierarchy by the Chinese communist leaders. It was held that imperialism pressed heavily upon them also, though as capitalists they participated and could not but participate in the exploitation of the masses.

From the very outset, they were marked for elimination; but it was known that the process would be completed in stages and no serious resistance was expected from them. This anticipation has been confirmed by the actual course of events, and they have been eliminated by the cumulative effects of the pressures which have been built up without recourse to force or violence to any significant extent. From the early assistance granted to them in 1949 by the new government they were in a state of real distress, through increasing regulation and control, the supply of raw mate-

rials, equipment and finance and almost complete purchase and distribution of their products step by step the national bourgeoisie were led to a position in which it was almost inevitable for them to realize that complete transfer of their undertakings to public sector was the only logical and, even from their own point of view, beneficial outcome of the processes that had been at work and acquired increasing momentum. In 1956 the transformation of private enterprise having been almost completed, re-organization of the undertakings and fuller incorporation of the operative principles of a socialist economy are clearly indicated as the next step in the process of development.

In 1954 there were 134,000 private industrial establishments, but only a few thousand of them were employing 50 or more persons, and a vast majority of them were very small undertakings employing four to ten persons. The change having taken place 'in an upsurge' early in 1956, the problem of re-organization had to be faced without an adequate preparation, and new functional units are being brought into operation on an empirical basis. At first by decrees status-quo had to be maintained until new ideas and practices could be developed and applied. The general principle has been to bring different local units in each industry into one organization or 'trust' and make it as self-regulating as possible within the framework of general decisions. Each Trust has to re-organize the units, combine and amalgamate them when enlargement and diversification of production appears distinctly advantageous, rationalize production, improve technique and ensure that all units of each industry and the industry as a whole can carry out the tasks assigned to them and fulfil their contractual obligations. *Very small establishments present problems of their own*, amalgamation in their case is neither desirable nor practicable and decentralized production has advantages of its own. Waste has to be minimised, unco-ordinated action provided against and a number of focal units created through which the various units can be organized and developed.

The process of re-organization is likely to take time, and suitable economic units of production and administra-

tion would have to be evolved in the light of experience and developed into good working propositions. Standardization of wages in each industry and all industries taken together would have to be achieved and irrational difference existing at present eliminated. On the basis of the available information only a very general picture of what is being concretely done for the re-organization of these numerous establishments can be drawn. In this process the experience of the administration of the state-owned enterprise would naturally be drawn upon and eventually uniform principles would have to be applied to these and the state enterprises without creating any serious rigidities. The state-private joint enterprise, as already pointed out, are really state enterprises, and the only difference between them and the latter is that the erstwhile owners have interest in their receipts to the extent of 5 p.c. of their assessed capital valuation at the time of their transformation. This is presumably the first charge on their income and has to be met irrespective of losses or profits. These owners have in effect become debenture holders of these enterprises and have to be treated as such. The cost of this recurring charge is estimated to be 150 million yuans per annum.

Industries are partly under the control of the Central Government and partly of the local authorities. There is no clear line of demarcation between the two jurisdictions, the division of functions is based on empirical considerations and the partition line is movable and moved according to the needs of the economy. Every municipality, three metropolitan cities of Peking, Tientsin and Shanghai and all Provinces have their own Bureau of Industries which exercise administrative control over the state, jointly operated and private factories except the state concerns which are directly owned by the Central Government. Even with regard to the latter these bureaus exercise a general supervision and offer comments on their plans and operations, but have no administrative authority over them. They themselves are under the Central Ministry of Local Industries which issues directives and transmits the instructions of the Planning Commission and the Central Bureaus to them. The Municipal

Bureaus are under the Provincial Bureaus, but plans of all locally controlled industries—the state, joint, co-operative and private industries—are co-ordinated by them and have to be centrally approved. The state-owned industries are mostly, though not entirely, centrally financed. In regard to social insurance regulations, rules for the distribution of net receipts, organization of industries and in all other matters of major importance there is no essential difference between the centrally and locally controlled industries and they all carry out a uniform national policy. As stated above, the line of demarcation between the central and local jurisdiction is not clearly defined and is in practice variable. In Kalgan, for example, locally controlled industries are tobacco, alchohal, brick and tile kilns, edible oil, flour mills, egg-powder and wheat flake factories. Some are producing for local markets but others are sending their products to other parts of the country and the egg powder factory is mostly exporting its product to foreign markets. These were relatively speaking, small industries, and all taken together employed 4206 workers in December 1954. In Shanghai locally controlled industries include cigarettes, soap, matches, fountain pens, torches and thermoses. Honan local factories increased from 2677 in 1950 to 4603, including privately owned factories, in 1954 and among them the more important were coal mines machine making, cigarettes, alcohol, flour, oil pressing, egg products, leather and silk. Almost all the heavy industries are owned and operated by the Central Government and also a large number of factories producing consumer goods which owing to their size, capital investment and importance, need direct central direction and control; and all other industries are controlled or operated locally subject to central directives. The position, however, is fluid and further experience is needed for clear definition of spheres and functions between the Centre and the Local Authorities in this respect. At present there is unified planning, co-ordination in operation and central investment control. From practical standpoint, no over-lapping of functions does not mean confusion of counsels or working at cross purposes in the economic development of the coun-



try. When the economy is mature and highly developed, re-allocation of functions and resources would be necessary and could be carried out in the light of experience.

Industrialization in particular and economic development in general on the scale and the rate at which it is being carried out in China, involves very heavy investment and therefore enormous accumulation of capital. The question as to how a poor and war-ravaged country like China could find resources for this scale and rate of development is often raised and when the Chinese answer it in terms of their own experience and knowledge, the answer is received with skepticism bordering on incredulity. The countries, whose position was similar but not as bad as that of China, are still thinking in terms of foreign loans, grants and investments in order to finance their development; and even with them they have not been able to attempt, much less attain, the rate of development which China has already achieved and proposes to accelerate in the years to come. The question is, therefore, of very great interest for even in the old economy of China the view that for her economic development foreign loans and investments on a large scale would be indispensable was widely held and earnestly pressed. The correctness of this view has been disproved by the events, for China has in fact almost completely found her own resources for the gigantic scale and the amazingly rapid rate of her development. China was and still is, in spite of the achievements of last six years, a poor country; and yet it is true that she has found her own means to implement her vast 'capital intensive' and 'labour intensive' scheme of development, i.e. the schemes which require enormous expenditure on capital equipment and those in which large-scale mobilization and application of human labour are needed. The Chinese point out that these results have been achieved by methods which are simple and about which there is no mystery whatsoever. The key to large scale capital accumulation and fuller utilization of her man-power, according to them, lies in the fact that she has, to use the phrase, which owing to its having been usually repeated has, in many quarters, come to be regarded merely

as a catchphrase, 'released new productive powers' and brought into play new social incentives, i.e. social revolution in China itself has generated both the capacity and will for large scale capital formation in terms of equipment and application of man-power and has found its own answer to the pressing need for enormous capital resources. This is the Chinese answer to this question, and there is no reason why its validity should be questioned unless the facts point to a different or contrary conclusion.

The facts of the case may first be briefly stated. From 1950-52 China spent on economic construction, in terms of her new currency, about 15,369 million yuans, in 1953—10,352 millions, in 1954, 12,358 millions and in 1955 the estimated expenditure on this head is 14,189 millions i.e. for three years i.e. 1953-1955, her total expenditure amounted to nearly 36,900 millions and for the six years since 1949 to 52,269 millions. In terms of Indian currency it amounted to Rs. 10,500 crores or average expenditure of about Rs. 1,750 crores per year and in American currency \$370 million per year and \$2,220 millions in the six year period. Under the first five year plan the total expenditure on national construction is estimated to amount to 76,640 millions yuans or Rs. 15,328 crores or over 3,660 crores per year which in American dollars is roughly equal to \$640 million or \$3,200 millions in the whole period. The amount includes the expenditure on education, health and other social services, but as most of the expenditure is to be incurred on economic construction, it is a fair measure of investment in development. The total expenditure on economic construction from 1949 to 1952 amounted, as stated above, to 15,369 yuans or roughly Rs. 3,074 crores. For the 8 year period i.e. 1950 to 1957 the expenditure on economic construction may be taken to amount to \$3,840 million. Soviet aid<sup>1</sup> for economic development of China has been

<sup>1</sup> "The total Soviet loans in the five year (1953-57) provided only somewhat three p.c. of China's State revenue. Basically the Chinese people rely on their own resources on the huge sums being invested. During the past years they have invested one-fifths of the national income in socialist construction." *People's China*, p. 19, No. 20, October 1957.

given on a considerable scale, and its extent will be indicated in a later chapter, but, broadly speaking, it is true that practically the entire expenditure on development has been met out of internal resources, mostly out of revenues of the state. She is not resorting to deficit financing for meeting her capital or development expenditure, and public savings or revenue surpluses are practically the main source of investment and economic development expenditure. This estimate does not include investment in agriculture by individual cultivators and the cooperatives and the contribution in labour for construction works, but generally speaking, it gives a fair idea of the magnitude of the effort which China is putting forth in spite of her limited resources and heavy defence expenditure.<sup>1</sup>

How has this been made possible? The general answer which is given to this question has been indicated above; but it has to be stated in more specific terms for a clearer appreciation of the Chinese approach to this question. This capital accumulation is attributed by them to the following reasons. (1) The economic drain of the Chinese

<sup>1</sup>Defence Expenditure from 1952 to 1957 is given in the following table

Year	Amount in Million yuans	% of total expenditure
1952	4,278	26.2
1953	5,225	32.38
1954	5,814	23.6
1955	7,193	24.19
1956	6,116	20.10
1957 (estimated)	5,523	18.85

The aggregate expenditure on defence is more significant than its proportion to total expenditure as a measure of its impact on the economy as a whole. In 1950 defence expenditure of China was 2,852 million yuans, and by 1955 it was nearly 2.5 times that figure, and in 1955 it had risen by 75% over the 1952 level. This increase was mainly due to the 'encirclement' of China. With a chain of military bases all around her she had to give security considerations very high priority. China spent on defence 30,394 million yuans from 1950 to 1955, i.e. 57% of the expenditure on economic construction during this period, 52,269 million yuans. The proportion of defence expenditure fell further after 1955 and in 1957 it is estimated to be 18.85, but in absolute terms, expenditure on this head continues to be onerous, and increases greatly the strain of the effort needed for economic development.

resources owing to the imperialistic, i.e. foreign, exploitation of her economy having been completely stopped, surplus has been created which was not available for development before (2) The land reform has increased the real purchasing power of the peasants by 30 million tons of grain, and the end of feudalism, adoption of the improved technique and the organized co-operative work of the peasants has increased the total yield of grain from 115 million tons in 1949 to 163 million tons in 1954 and further increase of nearly 30 million tons is expected by 1957, the total output has already increased by 48 million tons and the prospective increase in the next three years would raise the figure to 78 million tons. All this means great expansion of the real resources of the country which is partly used for improving the living conditions of the people but also partly for capital accumulation for national construction (3) The property of the bureaucratic capitalists who, it is understood, had acquired possessions worth \$20,000 millions, has been nationalised and it is now an important source of capital accumulation (4) Profits of private capitalists have been regulated and limited, and in 1955 a considerable share of the profits, roughly about 50 p.c., had to be paid in taxation, re-invested in construction or placed in reserve fund to expand production in private enterprises. (5) Increasing importance of public sector in the national economy gives the state control over increasing proportion of national income, and the latter has used its increasing revenue from economic enterprises very largely for expansion of production.<sup>1</sup>

<sup>1</sup> In 1955—i.e. before the greatly increased tempo of socialist transformation in 1956, the state enterprises directly contributed 11,115 million yuans out of the total revenue of 28,049 million yuans, 39.63%. This proportion increased from 23% in 1952 to 39% in 1955: and the proportion of total receipts (ie including revenue from taxation of public enterprises—the state, co-operative and jointly operated enterprises) increased from 34.08% in 1950 to 49.35% in 1951, 56.39% in 1952, 59.79% in 1953, 70.51% in 1954 and 76.32% in 1955. This has more the fully covered the increasing expenditure on economic construction and social services. This proportion has since 1955 increased further owing to the new tempo of social transformation.

(6) Increase in the productivity of labour and economy of costs through emulation drive, improvement in the technical level of the workers, raising the level of their social education, fuller and better utilization of equipment, increase in the turnover of capital and adoption on a large scale of the improvements and innovations suggested by the workers themselves<sup>1</sup> have contributed greatly to accumulation of capital. In 1954, for example, increase in the productivity of labour in state-owned enterprises increased state revenue by 1021.2 million yuans and the reduction of costs below the planned target by 210.6 million yuans which was nearly 10 p.c. of total expenditure of 12,358 million yuans on economic construction in 1954. (7) Improvement in the standard of living which has taken place already is considerable and provision has been made for further improvement in the current five per plan, but the nation as a whole is living on an austerity basis, the range of inequalities in the country is limited, all share in national austerity and the general buoyancy of spirit and the change in social values makes the abstinence a common national undertaking and an essential part of the new way of life of the people. (9) Nationalization of the banks and financial institutions, introduction of new technique and adoption of the new canons of administration in the credit system of the country greatly facilitates the accumulation and mobilization of resources and makes them fully available for investment and construction and (10) Enormous labour power of the country through organization and effective appeal to the social sense of the people, is being mobilized for construction work without dislocating agriculture or reducing its production and is in effect a source of large accumulation of capital. In the report of their visit to the River Valley Project in China, Messrs Kanwar

<sup>1</sup> In 1954 580,000 workers put forward 850,000 proposals more than half of which were adopted. All proposals are, of course, of not equal merit, even among those which are adopted, but a large proportion of these are reported to have lead to considerable economy; and some of them are publicized all over the country owing to their importance and are known to have brought very large reduction of costs.

Sain and K. L. Rao, Chairman and Director respectively of the Indian Central Water and Power Commission, cited instances of remarkable achievements in water conservancy and highly commended unprecedented speed with which the work had been completed without the help of heavy equipment. They added, 'All the work was done mostly with human labour. On North Kiangsu canal 12 lakhs of people were employed. The organization of the peasant workers in such a large number is a difficult task. This has been achieved in China in a systematic and scientific manner. For instance on the Huai two to three million people are free from agricultural operations in winter and spring for a period of four to five months. Only they have to be mobilized and imbued with enthusiasm. They are taught to realize that the work of regulating and harnessing the river is in the interest of the masses. China's projects show that human energy is colossal, and if properly handled and employed it can work miracles.'

These sources of capital accumulation have been discovered and are being operated because of social revolution in China; and if their nature and scope are rightly understood, the view, that the accelerated process of greatly enlarged capital formation in China, is a part of social transformation that has occurred in that country and is largely due to it would appear cogent and convincing, and need not be viewed with incredulity born of the habits of thought created by an entirely different social context. Hu Shing in his admirable study 'Imperialism and Chinese Politics' states that money was one of the two weapons wielded in China by the imperialists to subdue the Chinese people and to check the advance of the Chinese revolution. "The imperialists used financial power," to quote his words, "to frustrate the Chinese revolution. From the days of the Manchu dynasty all reactionary governments in China had claimed that it was impossible to solve financial difficulties without foreign loans. A revolutionary government had to make a resolute break with this tradition and seek the support of broad masses in solving difficulties." The present

Government of China has made a resolute break with this tradition and sought the support of broad masses. It has by its achievements fully demonstrated that the latter, i.e. 'support of broad masses', can be and is a great source of capital accumulation. Poverty of China is still a grim fact of the life of her people, but in spite of it or rather because of the spirit born of the new will to conquer it, the Chinese have without creating any inflationary spiral, embarked upon a vast programme of national investment largely with their own resources. It may again be repeated that finance of their economic programme is, as the Chinese claim, no mystery; it is being financed 'by the support of the broad masses' and incredibly simple as the statement sounds, it has a good factual basis.

Industrialization of China is being carried out in the manner and to the extent explained in this chapter on the assumption that "it is impossible," to quote from the Report of Mr. Li Fu-chin again, "for socialism and capitalism, whose systems are antithetical, to develop alongside with each other without mutual interference. We can either take the path of capitalism or the path of socialism; but the Chinese people will never allow the latter path to be taken. That we are taking the path of socialism is in accord with the natural law of historical development of our country. The sharp contrast between the two paths in this statement is a forthright presentation of the view which the Chinese Government and the people now firmly hold; and it sustains them in the effort needed for carrying out their economic programme in general and socialist industrialization in particular. Socialist industrialization is their answer to what Li Fu-chin calls 'encirclement by vicious imperialism;' it is also their answer to the problem of removing contradictions inherent in a 'backward national economy' i.e. it is the means, to quote from an article of the Constitution, by which 'the Chinese Peoples' Republic, by relying on the organs of the State and the social forces and by means of socialist industrialization and socialist transformation, ensures the gradual abolition of the system of exploitation

and the building up of a socialist society.' Clarity with which the task has been defined, as pointed out already, is a great asset for carrying out this programme with knowledge, insight and vigour.



## CHAPTER VIII

# ROLE OF THE HANDICRAFTS

THE CRAFTS of China—not only her superb artcrafts—have been and are important in her economy. They have suffered severely for over a century from (a) competition of mill-made goods produced within and outside the country by foreign-owned and Chinese owned mills (b) the extreme exploitation of the craftsmen owing to their increasing dependence upon the merchants for their markets, raw materials and even tools of production (c) their complete lack of organization in spite of numerous guilds which promoted and protected the interest of the small workshop owners, master-craftsmen and merchants and not of the craftsmen i.e. the workers who had to labour for long hours, under conditions which undermined their health, self-respect and moral fibre and for miserably low wages (d) the exactions of the landlords, the payments of usurious rates of interest and the manipulation of the compradors which, taken together, reduced the peasants to destitution and to the necessity of sweating on auxiliary crafts to meet their onerous dues and eke out a scanty living. The crafts had to struggle against all these odds and more, and yet they have survived, are estimated to account now for 15 p.c. of the national production, support nearly one sixth of the total population and even in a city like Shanghai, still the foremost industrial city, the craftsmen constitute nearly 18 p.c. of its working population. The new economy of China is all for high-powered industrialization, for giant steel mills with automatic blast furnaces, rolling mills and switch board controls, modern air-conditioned, automatic and dust free cotton mills with the most modern contraptions and built-in safety devices, highly mechanized mines with mechanized cutters, loaders and conveyers, large fertilizer plants, streamlined automobile and tractor factories

and eventually mechanized agriculture using tractors, harvesters and combines, also for the use of bull dozers, cranes and very heaviest machines in the execution of construction and water conservancy projects and of course the utmost use of power—particularly electricity—and soon it may be atomic energy—for replacing and relieving human toil. The Chinese have no arcadian dreams and do not believe in the rhythm of the spinning wheel or small units of production. By their conviction and philosophy they are committed to making China a highly industrialized state with large units of production and to utilizing to the utmost the most advanced methods of scientific production without any misgivings regarding social consequences of modern technique and large aggregates of production. They have no fear of any Leviathan—not because human values mean nothing to them—according to their way of thinking they are all important—but because according to them, Franksteins are not produced by machines but the men's inability to use them for the benefit of the community and under its complete control. They are confident that the men, provided their economic relations are not based upon exploitation, can and will master the machines and in a real sense make them servants of the people—i.e. the means of production through which an economy of abundance, social justice and cultured leisure for all—i.e. a truly socialist society—can be realized.

This view is guiding them in executing their programme of social transformation and is applicable to all measures of economic policy and development. What is its bearing on the future of the handicrafts in the Chinese economy? Would they regard them as vestiges of the past and let them languish away? Would they look upon their progressive destruction as an inevitable historical process, hasten it in order to shorten the period of painful re-adjustment or at best take some benevolent measures to mitigate human sufferings due to it? Have the handicrafts any survival value or from this point of view, do they deserve to survive? From the ultimate standpoint, i.e. from the standpoint of the final outcome of the processes now at work, these issues do not

seem to have been fully considered and no clear theory of the relation of historical evolution to the handicrafts from the technical and social standpoints seem to have been formulated. The presumption that the small units, except in service industries, are not in keeping with the historical trend of production is inherent in their approach, but in specific terms that does not mean that the handicrafts are doomed from their point of view, and their extinction is to be taken as a foregone conclusion. Probably actual experience of the operation of the new economy under the actual conditions prevailing in China and fuller understanding of the relation of the most recent developments of industrial technique to the optimum size of industrial establishments would suggest and even necessitate re-examination of the whole question and possibly revision of the economic theory in regard to the units of production. The need for this re-examination and revision has so far not arisen because the Chinese are in this respect, as in other respects, guided by practical considerations and are prepared to let final shape of things to come be determined by the light of experience and concrete needs of the future. For the present they know that the 20 million Chinese craftsmen and their families have to live, the productive force which they represent has to be utilized to satisfy the needs of the consumers; in absence of the alternative sources of supply, either these needs have to be satisfied in this way or they will not be satisfied at all, and with the emphasis on heavy industries which will 'ripen into goods' after a long lapse of time, it is essential that the urgent needs of the people and their rising expectations should not be put in cold storage. Nearly one-sixth of the total population of the country has to be planned for even if the technique of production upon which it depends is taken to be anachronistic; but no technique is fixed and even the craftsmen can be brought within the range of transformation, their technique of production and productive relations can be changed according to the needs of the new situation and with a definite intention of putting a stamp of the future on their methods and relations of production, and both can express and promote the objectives

of the new social policy i.e. they can more and more acquire a socialistic character in their operation and results. The object of the new economy is to put an end to exploitation, to change men's attitudes and behaviour, to increase production by raising the level of efficiency of the workers and creating an earnest desire to excel their past achievements and to co-ordinate the working of large-scale, medium scale and small scale units of production. The economy being an integrated whole and in its different sectors under unified control, there is no question of one sector of the economy, even if it has better equipment and lower specific cost of production per unit of commodity, being permitted to drive other sectors out of production or cause unemployment among those who are making a living by it merely because their technique is old and organization unsuited to the needs of the new economy. The old technique represents social investment in material equipment, and in this case, in human skill and social heritage; and before the latter are discarded the cost of their obsolescence, from the standpoint of the community, has to be reckoned and allowed for in casting the balance sheet of gains and losses. In other words, the handicrafts cannot be scrapped because human and practical considerations rule out such a possibility, and large scale industries cannot possibly be allowed to kill them because both are social assets and alternative means of production for meeting the needs of the community; and so long as both are needed to produce the minimum requirements of the people, they both have to be assigned their place in the production programme and their cost and price structure adjusted by taking into account production as a whole and not production merely in a particular establishment or establishments in a particular sector of industry.

In a planned economy with a socialist objective, the history of the weavers, the smiths or the shoe-makers being thrown out of employment and they and their families having to starve by millions because machinery run by power was being used for the production of cloth, steel or shoes in the weaving mills, the steel mills or the shoe factory, cannot be repeated in China to-day. All over the world in

this respect economic progress at terrible human cost has been the rule, and in China also competition between the mill-made and craft-produced goods has caused enormous suffering; but now the approach being based upon social needs and calculus of social costs, an over-all view of the whole economy is called for and its internal stresses cannot be allowed to develop or assumed to be the price of technical progress. From practical point of view, therefore, the handicrafts are taken as an essential element in the existing situation and incorporated in the programme of economic construction. This is being done at present, and though up to October 1953 the position was not clearly defined, since then the state policy in regard to the handicrafts is that they have to be reorganized, their production placed on a co-operative basis and its expansion made a cardinal feature of the production programme of this country. A large number of the most ardent and tried cadres of the communist party have been put on this task, a new organization is being built up for raising the efficiency of the handicrafts and increasing their production with a view to making them an integral part of the socialist transformation of the country. The primary object of this programme is to place the craftsmen in a position to concentrate on production and their own welfare, relieve them completely of marketing function both in regard to the raw materials and the finished goods, and give them full technical and credit assistance for developing their capacity and production. The whole programme is now being put into operation on the assumption that most of the consumer goods particularly in the rural areas, are to be produced by the crafts, specially during the period, which necessarily would be a long one, of the development of heavy industries and industrialization of the country.

The handicrafts in China were, as in other countries, of different categories. They were: (1) Auxiliary work of the peasants either for meeting the needs of the family or for earning supplementary income. The latter form, which is of greater interest, was used for exploitation of the peasants in the past, but now is likely to acquire significance

of its own owing to rationalization of agriculture and the reduction of labour costs. (2) Mobile unattached craftsmen, who owned their own tools and worked to order for the customers in their neighbourhood. They generally had clientele of their own from whom they realized customary charges which did not vary to any extent. (3) Service trades like barbers, launderers etc. who also owned their own tools and as a rule worked independently. (4) Craftsmen who worked in their own houses with family labour, and in some cases took one or two apprentices. They produced for the market or to order, but they bought their own raw material and sold their own wares. Indebtedness was common among these craftsmen owing to their lack of reserves. (5) Craftsmen who worked in their houses, and either did processing work for the merchant or took advances from them and sold their products on terms through which they, as a rule, got worst of the bargain. They too suffered from serious indebtedness and usurious rates of interest. (6) Craftsmen who worked for master-craftsmen as hired labourers, journeymen and apprentices. The master craftsman worked with them and maintained human relations up to a point, but they were, nevertheless under his thumb and did not generally get a square deal. The master craftsmen, though they sometimes did their own marketing, were not unoften dependent upon the merchants and were exploited by the latter. (7) Craftsmen, who produced in workshops for wages with their own tools, but the more expensive tools were sometimes supplied by the owners. There was no regulation of the hours or conditions of work or the rates of the wages in these workshops and the craftsmen generally worked under very bad conditions and received very poor wages. The workshop owner was also generally a merchant, but in some cases the two functions were separated. (8) Craftsmen, who worked for large scale industries, produced parts or did subsidiary work, were also generally overworked, under-paid and had very weak bargaining power.

These craftsmen in almost all cases were unorganized for self-defence, had no resources and knew next to no-

thing of conditions in wide markets to which they were being linked to an increasing extent and on which they were dependent. These different types existed until 1953 but their conditions have been radically changed since then. Under the new system the element of exploitation in the handicrafts has been progressively reduced and it is the object of the reorganization to eliminate it altogether, bring them into planned production programme of the country and greatly improve their living conditions. The craftsmen, who are producing artistic wares, have been as much exploited, if not more, as the other craftsmen, and though the standard of craftsmanship is generally good, they followed set designs and suffered from having to carry on unequal fight against the forces over which they had no control. The position in China was really no different from the conditions under which the craftsmen have to work in other countries. Re-organization of the handicrafts has to provide conditions under which the craftsmen can get a fair deal, their technical efficiency can be raised, they can become more self-reliant, their production can be integrated to the new economy and they themselves can more and more participate consciously in building up the socialist society. Nothing need be done about the peasants producing for themselves in their off time, but in all other forms these handicrafts have to make a break with the past and develop organization, relations and norms of work suited to the changed conditions. The idyllic picture of the craftsmen working independently with creative joy in their crafts and producing commodities which in themselves were both the products and instruments of a culture, in which personality was the most important factor, was not true of any country in the world; it certainly was not true of China. In regard to the handicrafts, as all sectors of production, the new economy has to root out the evils of the past, and give the craftsmen a mastery over the conditions under which they have to work, enable them to make a good living and while conserving their old heritage of skill, precision and the sense of form and colour, free them from the bondage to the past. A new deal for the handicrafts is as

badly needed as for agriculture, industry, commerce and banking; and it is to their great advantage that it is being provided through the state policy in operation since October 1953 and has already produced good results.

The main objects of this policy having been indicated above, it is now necessary to explain the various ways through which they are being realized. The craftsmen as stated already, worked independently or as wage earners; and even when they worked on their own, they were in no position to protect their own interests or hold their own against the merchants. As employees they needed to be protected against their employers, organized into trade-unions and their capitalist employers had to be, under the general policy, used, restricted and transformed. Every labour federation had its handicrafts section which organised the craftsmen in small workshops into unions and placed them in a position to negotiate contracts and ask for and obtain higher wages and better conditions of work. In small workshops the owner had to be eliminated and production organized on a co-operative basis. The jointly operated state-private enterprise cannot, with advantage, be developed in such establishments. The independent craftsmen have to be freed from the merchants' exploitation and to be organized for production. The Marketing and Supply Co-operative of the craftsmen, by taking over the commercial functions put an end to the hold of trade capital over them and put them in a position to make production their only interest and function. The producers' co-operatives, therefore, either are linked to the co-operatives which do their trading for them or they buy and sell on contractual basis through the state-trading corporations or the Marketing and Supply Societies in the rural areas. These public commercial organs are also trying to assist the individual craftsmen to secure fully the fruits of their labour, but it is when they can deal with the teams, groups and the producers' co-operatives that they can render full assistance to the craftsmen, provide security against the risks of marketing and help them in the development of production. For dealing with the Marketing and Supply Co-operatives, the Consumers' Co-operatives and



the State Trading Corporations, the independent craftsmen or their teams, have trading co-operatives of their own for buying raw materials, selling finished goods or accepting orders and contracts for processing. The master craftsmen, the owners of workshops and the craftsmen are eligible for joining these trading co-operatives, but as their object is to replace capitalist or patriarchal relations by co-operative relations, these co-operatives build up their reserves, purchase tools and instruments for production, introduce a rough division of labour and concentrate on certain stages of production. They are primarily intended for commercial negotiations with the organizations referred to above, but they pave the way for the advanced forms of co-operation in production and end the exploitation of craftsmen by the merchants. The producers' co-operation begins with the organization of small teams, who produce independently on individual or family basis but use the teams for dealing with the co-operatives or State Trading Enterprises. Production remains scattered, and level of technical efficiency low, but elementary lessons in co-operation are acquired through these teams. The trading co-operatives referred to above are the next higher stage of development and provide for limited co-operation in production. The highest form of Producers' Co-operatives of the craftsmen is developed when individual craftsmen, apprentices, workshop owners and master craftsmen combine for production in a co-operative establishment under one roof, plan it with care and get full assistance from the state and the Central Trading Organizations. The co-operatives have also higher and lower forms. In the latter tools of production are individually owned, are pooled together but appraised as share capital of the co-operative and a part of its income is distributed as return for this contribution. In the higher form all the means of production become common property and the entire income is distributed among the members according to work. Organization of the craftsmen on a co-operative basis was started in October 1953, and by the end of 1954, 1,100,000 craftsmen had joined the teams, the trading and producers' co-opera-

tives. The target for 1957—the last year of the plan-period was 5 million members and in 1960, it was expected, that all the handicrafts would be brought into the co-operative organization i.e. their membership would rise approximately to 20 millions.

The programme of development and transformation was completely revised at the end of 1955 and in March 1956, 88 p.c. of the craftsmen were reported to have joined the co-operatives. Later figures are not available at present, and it is not known what proportion of the co-operatives have become fully socialist, i.e. in how many of them the tools are owned in common and the craftsmen are paid 'according to work.' What is called 'dispersed' production is not only possible but also desirable in a number of crafts; and it will have to be continued and private ownership of the simple tools of production remain the rule in such cases. It is, however, likely that in 1957 almost all handicrafts will be organized on a co-operative basis, and a large proportion of the craftsmen would join the co-operatives of the 'highest' type.<sup>1</sup>

The organization of these co-operatives is about the same as that of the trading co-operatives. The basic units are managed by the board of directors and the board of supervisors who are elected directly by the members, but there are county and provincial federations and national organization—an all-China Federation of Handicrafts Co-operatives—has also been created. These federal organizations are constituted through indirect election by the repre-

<sup>1</sup> Development of the industrial co-operatives in Peking illustrates how fast these have been increasing since March 1956. According to the latest reports output of the Peking handicrafts went up by 33.5% in 1956, and the average income of handicraftsmen rose by 17% over the previous year. The local handicraft industry produced 18,600 different items of consumer goods and works of art for domestic consumption and export. Several hundred of items of handicrafts were revived after many years' interruption, and 2,000 new items added last year. All but a few thousand of craftsmen joined the industrial co-operatives, and new co-operative membership increased from 93,000 to 104,000. The average earning of the craftsmen was 50 yuan per month—same as that of the workers in the state industrial enterprises.

sentatives and there is a hierarchy of representation from the Hsien to the National Federation. At each level of the People's Government there is a Bureau of Handicrafts, and it administers the state policy in regard to the development of handicraft production. The National Bureau is the highest organ of the state for this purpose, has been given the status of a department and has access to the Council of Ministers. The mass organizations i.e. the federations and the bureaus are expected to co-operate at each level and exercise joint direction and control over the re-organization and the development of the handicrafts. The development of the handicrafts until the end of 1953 was one of the side activities of the trading-co-operatives. Now a parallel organization has been created and the trading co-operatives are to help it in the discharge of its function. Though there are trading co-operatives of craftsmen, they are really meant for preparing the way for the development of the industrial co-operatives, their trading functions are ancillary and not their primary interest. Between the trading and industrial co-operatives there is to be a clear line of demarcation and handicraft co-operatives would, in the later stages, have only productive and no distributive functions. These co-operatives have to attach as much importance to their educative, cultural and welfare activities as to the organization of production, for it is held to be very essential that the craftsmen should play their role intelligently and enthusiastically in the socialist transformation of the economy. Earnest effort is being made to remould them ideologically—to give them a point of view suited to their new functions and strengthen it by drawing upon their own experience. The industrial co-operatives are meant to be organs of a socialist society and not merely organizations of the craftsmen for the protection of their own interests.

It is not intended that the handicrafts should adhere to their old technique or improve it only within the limits of the traditional methods. The use of power in production by the handicrafts is not only permitted but very much encouraged. Research in the methods of production,

technical assistance to the industrial co-operatives from the state-owned industries and other public agencies and introduction of labour-saving and cost-reducing devices suggested by the members which, as in the case of the workers in the large scale industries, is definitely stimulated and fostered, are all meant to accelerate the process of technical change in production and point to the consummation under which handicrafts would really cease to be handicrafts in the real sense of the word. 'The motives of the socialist transformation', in the words of Mr. Teng Cheh, Deputy Director of Central Handicrafts Bureau, 'is to change the patriarchal master craftsman and apprentice relationship to a relation of mutual aid co-operation; to replace the scattered production by collective manufacture, to transform individual ownership of the tools and equipment by handicraftsmen to ownership by the co-operatives; and to transform, when possible, production by simple hand-tools to semi-mechanized or wholly mechanized production.' It may be assumed that there will be no question of displacing labour by mechanization without providing for it in the co-operative itself or other industries. Rationalization without any consideration for those, whose skill becomes obsolete on that account, being completely alien to the purpose of the transformation, would have no place in the new scheme of things. Men before machines or machines for men being the essential object of the change, the well-being of the latter would necessarily remain the foremost consideration in replacing simple hand tools by semi-mechanized or wholly mechanized production. It, however, follows that mechanization would not be held up on that account. It need not be and is not beyond the wits of man to reduce toil without inflicting pain or hardship; and it is the object of the new economy in China to make the reduction of toil a means of promoting well-being and not a cause of social dislocation or distress. Expansive possibilities of the new economy are regarded by the men in authority as an adequate safeguard against mechanization creating surplus of labour for which there is no use in production. In the case of handicrafts it is extremely unlikely that mechani-

zation will come with a rush and make the necessary social re-adjustments impossible. It is, however, clear that the programme of re-organization and development of the handicrafts, not only does not exclude, but definitely includes the application of power and modern technique of production as one of its essential elements. In the minds of the authors of the programme and in practice there is no conflict or contradiction between socialist industrialization and the development and consolidation of the position of the handicrafts in the new economy.

The industrial co-operatives are mainly intended to benefit the craftsmen in urban areas. Development of rural industries as such or the auxiliary industries has not been included in the programme of organizing these co-operatives. Rural industries, particularly auxiliary industries—have always been important for the peasants, and though some of them were developed to offset the effects of high rents, usurious rates of interests and the increasing pressure on the land due to the subdivision of holdings, they are, as stated above, of special significance in the present context of the Chinese economy. Pressure on the land in China is still very great, the land reform has led to the re-distribution of land but has not increased the per capita area of arable land, better organization of agriculture the development of mutual aid team and agricultural producers' co-operatives has meant and could not but mean economy of labour and therefore increase in the amount of surplus labour in the villages, and owing to the reduction of the death-rates due to the success of the preventive and remedial health programme of the state, the population is increasing faster than before in the villages and therefore reducing further the man-land ratio. Industrialization, large public works projects and expansion of social services have created employment and technical and intellectual cadres have no difficulty in finding employment, and yet the problem of unemployment in the villages, it is admitted, remains unsolved in spite of great improvements in the living conditions of the peasants, the problem has to be faced and the changes, which are taking place, are likely to increase and

not reduce its importance. Under these circumstances the auxiliary or subsidiary industries in the villages have to be assisted, developed and even created to utilize fully the available labour force in rural areas. In the programme of the industrial co-operatives there is no provision for accelerating the development of these industries. This omission is really deliberate because the agricultural producers' co-operatives are intended not only to raise the level of production, but also through a better division of labour, are expected to pay greater attention to these industries and supplement the income of their members through their development on co-operative lines. No organised action seems to have been taken so far to accelerate the growth and progress of these industries; but the agricultural producers' co-operative and the marketing and supply co-operatives together can plan their development and include their contributions in the production programme of the country.

The agencies through which such a plan can be prepared and implemented already exist and are increasing in number. There are limits to the intensive application of agricultural labour on the land; and when these limits are approached, the importance of planned programme of the development of auxiliary industries would press itself upon the attention of the people and probably be incorporated in the production plan of the country. These auxiliary industries exist and have, through co-operation and otherwise, become in the last three years a more important factor in the economic life of the people. There is need, however, for doing *much more* in this respect, and as stated above, this need is likely to be appreciated more clearly and provided for more adequately as the logic of the present trends manifests itself in a more conclusive manner and points to the need of a concerted large scale action on a national basis. In the agricultural and trading co-operatives the agencies, as stated above, are already available through which a nation-wide programme of production through the auxiliary industries can be prepared and executed. This development is inherent in

existing situation and it is not unlikely that it will before long become a practical issue of great importance.<sup>1</sup>

The programme of organization of and production by industrial cooperatives at present has been formulated and is being executed. New and better implements are being produced by these co-operatives; and with guidance such co-operatives can and would contribute greatly to the improvement of farming technique. Small mines worked purely by manual labour are also included in the production of the craftsmen and they produced in 1953, 550,000 tons of coal and 69,000 tons of iron. In 1930 it was estimated between one third to one-half of the output of coal and one fifth of the iron ore were produced by 'small native mines employing a few scores of workers apiece and almost destitute of machinery.'<sup>2</sup> Since then the relative importance of such establishments in the production of minerals has obviously declined and they would before long, it may be assumed, cease to exist; but as long as they continue to operate it is evidently desirable that they should be turned into producers' co-operatives. The craftsmen, who are engaged in the production of metal wares, of iron, copper, bronze, tin or silver, are still important and would continue to produce on considerable scale and in large numbers. 'The crafts of the potter and tile makers, of the builders, carpenters, furniture makers, shoe makers, hat makers, tailors, tanner, lacquer maker, of silk-reeling, woolen weaving, tapestry making, rope-making as well as the innumerable

<sup>1</sup> It seems clear that the issue has already been clarified and it is, as stated by Premier Chou En-lai in his interview with the Indian Delegation on Agricultural Planning and Technique, almost inevitable that most of the people in rural areas would have to make their living in their villages in spite of rapid industrialisation of the country now in progress and in prospect. In the reports on the working of the agricultural co-operatives, their members are being exhorted to pay greater attention to the need for the development of auxiliary industries and give them their due place in the annual production programme. The logic of facts, as stated in the text, would bring this need more and more strongly home to the Chinese leaders and particularly to the members of agricultural co-operatives as the programme of their development and re-organization gets under way.

<sup>2</sup> R. H. Tawney, *op cit*, p. 111.

trades concerned with the production of household requirements, ornaments, jewellery and artistic products' are (i.e. in 1930) according to R. H. Tawney, 'what they were five centuries ago.' With change in patriarchal relations of master-craftsmen and apprentices and also complete change in the nature, extent and composition of markets (i.e. from private customers and merchants to trading co-operatives,) these crafts will not be what they were 25 years ago, but they will still continue to play an important part in the Chinese economy; and when their production is planned and technique improved, they would probably hold their own in and because of the socialist transformation of production. Owing to the change of vogue, some crafts like those producing ornaments and jewellery will probably lose ground, but there is no reason why most of them should not only maintain but also expand production, and with an economy which is expanding and broadening the basis and extent of the market, even man-power required by these crafts should be increased in spite of the use of power and partial or complete mechanization of production.

In 1954, 60 to 70 p.c. of the consumer goods required by the agriculturists were supplied by craftsmen through the trading co-operatives, and it is likely that materially the position will not change even if the programme of industrialization is fully implemented, and later greatly enlarged. In local markets, for which they very largely produce, they have the economic advantage of producing with local raw materials, according to local tastes and without any cost of transportation or very little. The question of competition of mill-made goods is not of practical importance for the trading co-operatives are the main distributive agency in rural areas; and though they should be expected to protect the interests of the consumers and in negotiating contracts with the producers' co-operatives pay due heed to the price factor and not accept unduly high-cost goods, they do not and would not undersell the craft-produced commodities or otherwise do anything to reduce their markets when production by the crafts, large scale units and imports from abroad are all subject to unified control and parts of an



integrated plan. Competition as a spur to economy in production or a safeguard against monopoly prices or inefficient methods of production loses its social necessity or function under the changed conditions. Assuming that economy drive now so much in evidence through out the new economy is maintained and further developed and the technique of cost accounting in a socialist system of production worked out and applied, there need not be serious social contradiction in giving to both the large-scale and craft-production their due place of co-ordinate importance in the production programme, and under the specific conditions of the Chinese economy.

The crafts which produce accessories for large industries have, as stated before, existed in the past and their production can be and probably will be, more scientifically and systematically developed without involving ruthless exploitation of the workers in these trades as in Japan and in the old Chinese economy. The producers' co-operatives are already receiving differential treatment in the matter of taxation, grant of loans and the purchase of commodities from the state-trading corporations. This trend can, if necessary, be further developed and in the initial period of growth, special assistance to the industrial co-operatives can be guaranteed in surmounting their preliminary difficulties. The essential point is that craft production has to be and is as much a matter of concern for the new state as the development of the large scale industries. The short-sighted 19th century view that craft production is doomed and should not be saved by artificial measures is not good economics—and not at all good socialist economics. This view has no place in the plans of the new economy in China and the expansion programme of the crafts is its unequivocal repudiation.

It would help in understanding and appreciating more clearly the growth of the craft co-operatives and their working if this general statement of their position is supplemented by giving concrete illustrations. Only three cases are cited here, but even they would be of some use for the purpose in view. The Carpet Producers' Co-operative,

Peking, grew out of 5 teams with 21 members organized by a state-owned enterprise to reduce general unemployment among the carpet weavers in 1949. These teams merely did processing work for this company, received 80 p.c. payment in advance, worked with borrowed instruments and their finished goods were taken by the company. These teams were converted into a co-operative in 1950 and had 126 members in 1954. They added a dyeing department in 1950 which was their only source of income for two years as the export market for carpets had still to be developed. Since 1953 their position has improved. In 1954 they had their own implements and their total investment amounted to 30,000 yuans out of which share capital was 4,000 and reserve built out of their profits 26,000. Out of the profits 55 p.c. was credited to the reserves, 20 p.c. to bonus for production, 5 p.c. to education and 10 p.c. as contribution to the Handicrafts Co-operative Union. There were nine directors and seven supervisors elected every year by members, five of the directors were doing administrative and organization work, but the other directors and all supervisors were engaged in production. The co-operative was working to the specifications of the state company which gives it white wool and for dyes, which are imported, they enter into contracts with the State Chinese Art Materials Company. They had improved the technique, reduced the cost and had become a sound productive undertaking. From the welfare fund they provided for (a) assistance to the families in special need (b) medical assistance to members (c) cultural and recreational activities. They had a small library, reading room and had organized a number of news-paper reading groups. Political education of the members was being carried on continuously and, according to the Directors, had contributed in no small measures, to the success of the co-operative. All members were literate in 1954, but before 1949, 60 p.c. of them were illiterate. Six members had joined the spare-time middle schools. Five belonged to the communist party including the Director and Vice-Directors, and all the five were taking part in production and development of the co-operatives. Average income of each member was 55 yuans per

months and the Director was paid 65 yuans. There were five other carpet weaving co-operatives in Peking, three of which had over 100 members, one about 50 and one 25. They were producing about 33,000 square feet of carpets every year, one-fourth of which was exported.

The second co-operative, whose growth and working may be briefly explained by way of illustration, is the Brick and Kiln Co-operative, Kalgan. This co-operative was started in December 1949 by 15 unemployed men, who received a small loan from the government, in 17 dilapidated rooms and with 2 kilns which were in a state of bad repair. In 1950 they produced 89,000 tiles and 14,000 bricks but could not sell them and had to live on loans. In December 1954 the co-operatives owned 175 rooms, 3 brick kilns and 9 tile kilns. Their capital then amounted to 33,000 yuans out of which 8,000 was in share capital. Average annual earning of the members had risen from 260 yuans in 1951 to 490 yuans in 1954, and the number of members from 15 to 150. They sold 1.4 million bricks, 920,000 hand-made tiles and 520,000 machine-made tiles. The co-operative had reduced cost by three-eighths in spite of having nearly doubled the rate of wages. In concrete terms it meant that 50,000 bricks could be produced in 148 hours as compared with 200 hours in 1950, consumption of coal per tile had been reduced from 15.5 to 11.66 ozs per tile, the damaged tile rate had been reduced from 7.2 p.c. in 1950 to 3.6 p.c. in 1954, and owing to adoption of the suggestions of some members the rate of production of tile had increased by 25 p.c. They have received technical assistance from a state-owned factory for installing machines and they bought their coal from the Municipal Material Supplying Bureau at a rate which saved them 4 yuans per ton compared with the market rate. They had borrowed 5,000 yuans from the Peoples' Bank at concession rate. They sold their bricks mostly to enterprises, institutions and organizations for construction and received prompt payment. In 1953 most of their members were illiterate, in 1954 only 15 were illiterate and six had attained the middle school level. Most of the members were attending political training courses, and out of the profits provision

was made for medical assistance, special assistance to needy families and of course, for building up the reserves to which 55 p.c. of the profits, as in the case of the co-operative referred to above, were carried. Allocation of profits to the other heads was about the same. The co-operative had also boards of directors and supervisors and the age of the managing director, a real live wire, was 23. Frequent meetings for discussion of production and managing problems were held and criticism and self-criticism were practised.

The third illustration is drawn from Shanghai. This co-operative is making bedsteads and medical appliances etc. for hospitals. It was set up in 1950 with 26 members and received assistance from the Federation of Co-operatives in early stages. In October 1954 its membership had gone up to 200 and its production was 68 times as much in 1953 as in 1950 and 31 times as much as in 1952. Manual work had been replaced by machine in important processes like making tubes and threading; and the members have, through their proposals, greatly improved the technique. Average earnings of members had increased by four times in 1954 and amounted to 88 yuans per month. Raw materials were supplied to the co-operatives by the state-owned metal company and at concession rates. They sold their products mostly through the Co-operative Federation, though direct sales to hospitals were not ruled out and did take place. Their prices were 2 to 5 p.c. lower than the market rates, and they had been able to accumulate large reserves. All members were literate and sixty p.c. of them attended spare time schools in order to raise their technical level. All members received free medical attendance at the expense of the co-operative and other usual welfare activities were undertaken. The Director and the Vice-Director, who were also craftsmen, did only administrative work and were elected by members every year. The state assistance to the co-operatives was being continued though it largely relied on its own resources. Being in Shanghai the members' level of political consciousness was higher than in most places and had been rising. This co-operative was very well

thought of and its achievements were rated high as an organ of producers' co-operation. These three co-operatives illustrate how the co-operatives are organized and function, and bear out the point that their work is being done under very favourable conditions and their production has been expanding with great rapidity. They are no longer ploughing their lonely furrow, but playing a very important part in the shaping and developing of the new economy.

The Handicrafts Co-operative Unions have been formed in most Provinces and are (a) developing and consolidating the work of the primary co-operatives (b) arranging for the purchase and supply of raw materials needed by the co-operatives, mostly from the state-trading co-operatives but also from other sources (c) finding markets for craft produced goods again mostly by making contracts with the Marketing and Supply Societies, the Consumers' Co-operatives and state-trading stores and corporations and also with institutions, organizations, primary co-operatives, state-institutions, and other customers (d) preparing and approving credit plans of the co-operatives and arranging for the grants of the loans by the Peoples' Bank (e) establishing processing workshops and factories (f) training cadres (g) keeping steadily before the co-operatives wider objects of socialist transformation and general line of transition (h) convening conferences of cadres for discussing the basic issues, exchange of views and pooling of experience and (j) expanding the producers' co-operative movement by promoting the formation of the new co-operative and carrying on a campaign for diffusing as widely as possible the understanding of the need for their development and indicating the lines on which it should take place. These unions are generally headed by men and women who have drive, revolutionary experience and capacity to mobilize and lead the masses. They are in almost all cases 'activists', who have done well during the early years of struggle and liberation, and almost invariably trusted members of the communist party. Income of the Unions is derived from the commissions which they charge for their services to the primary co-operatives and profits of the pro-

cessing establishments and also to a certain extent from the contributions of primary co-operatives out of their profits. They have thousands of whole-time workers who receive special training for their work and are expected to be imbuing the right spirit for it. The board of directors of the Union are, as already stated, elected by the representatives elected by the primary co-operatives, who also elect representatives to the National Federation.

The industrial co-operatives formed during the war in China to which a reference was made in the 2nd. chapter and which were greatly publicised, came to a sad end owing to the struggle between two cliques of the old regime and their determination to use them for their own ends. They were organized to meet the war emergency, but even in spite of the pressing need their number at their highest level, i.e. in 1940, was only 1,738 and the number of members 25,682. In 1945 their number had fallen to 1,066 and that of members to 17,260. Really speaking these co-operatives had become moribund and were nominally existing as the emblems of, in the words of Mr. Chang Fu-ling, Secretary General of the Chinese Industrial Co-operatives, the 'middle way between capitalism and communism!' The co-operatives are regarded by many, who have a genuine faith in their beneficial role, as an alternative, as they generally put it, to exploitation under capitalism and regimentation under communism. This view expresses real hopes and fears and is based upon reasons which, on their own assumptions, are entitled to appreciation. In China, however, the industrial co-operatives, and for the matter of that all co-operatives, are not alternative to communism, but are being developed as a road to it. This essential difference between them and the co-operatives in capitalist countries has to *be borne in mind; but the inference drawn from it by some earnest students of co-operation that the co-operatives in China are not true co-operatives but merely instruments of an authoritarian system is not supported by facts.* The co-operatives are, it is true, functioning in a different social set-up and their substance is different on that account. A careful consideration of the whole position, however, points

to the conclusion that in their own milieu these co-operatives are playing an essential role in organizing the masses for mutual aid, arousing active interest among them in the well-being of the community, raising their productive efficiency, expanding production and bringing millions of individual producers and economic units within the ambit of a developing planned economy. They do mean both better business and better life for their members and foster habits of co-operative action on an extensive scale. The fact that in their conception, organization and working they are integrated with the whole economy is a point very much in their favour and not against them, for they draw their life from and give in return substance to an economy which has, whatever its limitations, dynamics of its own and meant wider horizons and far better living conditions for 600 million inhabitants of China. At the basic level they have meant economic democracy for millions of members of the co-operatives by giving them a decisive voice in management of their economic affairs and making common consent the basis of economic decisions. The view that the co-operatives have to be in their own element in order to grow to their full height is borne out by Chinese experience in co-operation in general and industrial co-operation in particular. These co-operatives are good co-operatives notwithstanding being significantly different from their counter-parts in the countries like United Kingdom, Ireland, Denmark and Israel. The difference is significant but in no way damaging to them on that account. 'The fascinating experiment' to which Jawaharlal Nehru referred in 1942 in his foreword to Nym Wales's *China builds for Democracy* ceased to be fascinating long before the new economy of China came into being, but the latter has created 'induscos' of its own on a scale of a completely different order and these have already truly achieved much and hold promise of much more. Some of the men who took part in the earlier experiment are, as stated before, working for the new co-operatives and finding in them fulfilment of their old dreams.

## CHAPTER IX

# THE FUNCTION OF LABOUR

THE WORKING class is held to be the leading force in the new Chinese economy according to the basic assumptions of its structure and working; and in alliance with the peasants and other classes, who are taken to be in full sympathy with its objects and methods, this class is regarded as the main prop of the new economy. This view becomes tenable if it is assumed that the working class i.e. manual and technical workers in large scale industries, other state enterprises and public administration, is, in spite of being a small minority in the entire working population of the country, of most crucial importance from the historical and the prospective standpoints and will have the major responsibility for shaping its future. This assumption being derived from the Marxian interpretation of history and its inevitable trends has to be related to the whole Marxian doctrine and can be understood and appreciated only as a part thereof. The working peasants are probably 300 millions and the organized labour—i.e. workers in industrial, commercial, transportation, administrative and cultural undertakings and organizations, are now between 18 to 19 millions. The development of the new economy on the lines on which it is proceeding now would increase the strength of the working class and greatly improve its relative position; and yet for a long time the peasants and craftsmen—particularly the former—would, it is certain, remain the most numerous class in the Chinese economy and a decisive factor in its working and development. It is well known that the new order in China triumphed over the forces, both Chinese and foreign, who were upholding the old order and fighting for its survival and continuance, with the militant support and enthusiastic co-operation of the peasants and is being largely sustained by them. According to the Marxian point of view, however, the working class has to be the prime mover of



historical events in the present stage of world history, and in China as elsewhere has to assume the leading position in determining the course of events. When industrialization has been fully realized in China and agriculture completely mechanized, this assumption would, of course, have greater semblance to the facts of the case and represent re-alignment of forces; but at present the working class, is a rising rather than the leading class and its importance is due more to the place assigned to it in making of the future by the Marxian doctrine than its contributions to the establishment or development of the new economy. It occupies strategic positions in the working of the economy, it has also played a significant part in making history in the last thirty years and ultimately it may in fact become all important as a social force. At present, however, in spite of its growing strength, it not only has to rely upon the alliance of the peasants, but the latter cannot be reduced to a secondary position in the social structure which is now developing in China. The primacy assigned to the working class is based more on an affirmation of the Marxian faith than an objective assessment of the present position in the country.<sup>1</sup>

From the practical standpoint, however, what matters is the radical change which has occurred in the position of

<sup>1</sup> The view expressed in the above paragraph is extremely heterodox from the Marxian stand-point and is likely to invite a great deal of criticism. It is, however, based on the unquestionable fact that the Chinese Revolution has been brought about by the leaders who almost entirely relied upon the peasants for their support and even now the latter are the mainstay of the new regime and the Communist Party. The working class has a strategic importance which is likely to increase with the increasing industrialization of the country. The Communist Party of China, in spite of the fact that it calls itself a working-class party and its vanguard, has been and largely is a peasants' party. The Marxian orthodoxy requires, that revolution should be brought about by the proletariat—the working class—and its dictatorship be proclaimed; but the specific experience of the Chinese revolution does not bear out this view. One of the points on which 're-thinking' needs to be done is the relative importance of the agricultural and industrial proletariat as makers of revolution in 'backward' countries. In China the peasants have been the moving force of the revolution, and there is no reason why this role should be denied to them in other countries in which they are in overwhelming majority and can be mobilized into action.

organized labour in China. It is no longer a class which is fighting for its elementary rights, has to struggle against heavy odds or take exploitation as its inevitable lot. It may be open to question whether it is, to quote the words of Mr. Lai Je-yu, Chairman of the All-China Federation of Trade Unions, 'the leading class which holds political power and the workers are 'the masters of the state,' but there is no doubt that it is no longer an oppressed class and the state is doing all it can, not only to improve its working or living conditions, raise the level of wages and remove the causes of ill-health of the workers and their extreme social insecurity, but it is making their well-being its primary concern, is taking all measures to raise the level of its technical efficiency, cultural and social consciousness, what is far more important, creating confidence that it can count upon full backing of the state and there is no limit to what the workers can aspire to or attain in life if they have the required ability or the necessary qualifications and experience. The workers now are being given every facility to work their way up, participate more and more on the basis of equality in preparing and administering production plans and through their organisation take active part in policy-making decisions. This change in their position makes it essential for the workers to change their attitude to labour, management and organization of production and to develop a new pattern of thought and behaviour in relation to the state, the community and the future. Labour in China owing to poverty, ignorance and the hold of old traditions was, and in a large measure is, very backward. It has to make up a long lee-way in almost every respect, but the faith of the Chinese leaders in its potential capacity to make good and produce leaders of high calibre has been justified by results. The position of the workers has changed essentially in the last six years, it has improved greatly in respect of wages, working conditions, social security and cultural and technical attainments, but its greatest gain has been the role which it has been given in building up the new society and the opportunities which have been opened to it for equipping itself for that role. Labour may not be 'master

of the state'; but it, with new vistas of work, achievements and life, can be and is becoming a great constructive force and its exploitation and oppression have, as pointed above, become evil memories of the past.

Increase in the number of members of the Trade Union may be taken, generally speaking, as a measure of the increase in the size and strength of the working classes. The Federation of Trade Union, after over twenty years of underground work, was re-organized in 1948, and since then its membership has increased from 2,370,000 in 1949, to 5,170,000 in 1950, to 7,290,000 in 1951, 10,200,000 in 1952, 11,000,000 in 1953, 12,450,000 in 1954 and 18,500,000 in 1955. The trade union organization has now an extensive coverage and includes, besides industrial workers, workers in transportation, posts and telegraphs, commerce, state agricultural establishment, financial institutions, public administration and cultural institutions and organizations. In 1953 number of industrial workers was 3.9 millions, of workers in communication, transportation and telecommunication 1.8 million, in public and private trading concerns 1.5 million and in financial institutions etc. over 5 millions. Since 1953 expansion of workers in industrial, commercial, agricultural, financial administrative and cultural undertakings has taken place and in 1954 their number increased by nearly 2 millions. This expansion since 1949 has reduced unemployment in China but as Mr. Chou En-lai has pointed out in his report to the Peoples' National Congress on September 23, 1954 the problem of unemployment in China will remain for a long time and has to be solved step by step. In 1930 in twenty-six industrial centres trade union membership was a little less than 0.6 million and a large proportion of the unions only existed on paper and did nothing in particular. The figures of the union members since 1949 and the pre-war years are really not comparable, but they give some idea of the development that has occurred in this respect since the entire position in regard to labour underwent a radical change in 1949.

Now the workers are almost fully organized; and, with the backing of the state, are in a position to play a positive role in the development of the new economy. As stated

above, that implies that it should not now be necessary for them to fight for their rights or defend them against the threats of encroachment or violation. Their organized strength has now to be used for fulfilling production plans, increasing vigilant watch over their members as well as the management to ensure that the state policy is carried out in letter and spirit and the utmost is done to enlist the workers' co-operation in the organization of production and for raising the level of technical efficiency and social consciousness. Any 'a-political' tendency on the part of the workers is regarded as a matter of concern and is purposely combated. That, of course, means that the trade union rights derive their substance and significance from the new society which is being built up; and ideology of labour is held to be as important as the promotion and protection of its rights and interests. The workers' co-operation in this regard, if it is intelligently sought and obtained by appealing to reason and fostering clear understanding of the goal of the new social policy and its underlying purpose, can draw the best out of the workers and create a sense of active participation in the great undertaking of building up the new society. A crude approach to this task can mean mass suggestion, insincere conformity and pure 'indoctrination' in the lowest sense of the word. It would be surprising if the crudity of approach could always be avoided for rallying broad masses, to use the phrase which is in common use in China, always signified patient education of the workers by developing their mind and understanding and leading them by stages through experience and increasing insight to a clear grasp of the basic social issues and their bearing upon their day-to-day work and conduct. In other words, in view of the magnitude of the tasks to be accomplished and the urgent need for carrying them out with speed and success, it is unavoidable that there should exist mass psychosis up to a point and herd mind be mistaken for intelligent and active co-operation of the workers. In a social revolution it is difficult to combine zeal with intelligence and social skill; and even if the top leaders are fully aware of the necessity of realizing this combination, it is not at all easy to transmit this aware-

ness to the leaders at all levels and create a sense of discrimination between formal acceptance of and adherence to the new ideology and making it the basis of a new living and working faith. This cannot be achieved at all levels and in its completeness, and yet it is vital that ideological basis of 'orientation' of labour be laid with care and discrimination and high-pressure drive to secure apparent solidarity without its substance be reduced to the minimum. Trade Unions, like all other organizations, in a situation like the one which exists in China, must be organs of revolutionary change; trade unions even much more so for they are, *par excellence*, taken to be the most important standard-bearers of the revolution and its clearest expression. It is obvious that from the very nature of the situation a political approach to labour and its problems is ruled out completely and the emphasis on ideology is in keeping with the needs of the situation and the nature of the tasks which have to be accomplished. The problems of hours of work, level of wages, working conditions, social security and welfare arrangements acquire the greater importance on that account for without over-all improvement in regard to them, no real revolutionary change can be brought about; but they, taken together, do not exhaust the scope or significance of revolution or even indicate its true inwardness. It is right that what is called 'economism,' i.e. the tendency to work for improvement in the position of labour without any regard for the far greater purpose of developing and completing the revolution, be regarded as a besetting weakness to be guarded and provided against.

It follows, therefore, that sectional interests of labour should be subordinated to that of the community as a whole; and labour be educated in the necessity of moderating its demands on the limited available resources and foregoing immediate gains for accelerating the development of the economy as a whole. This object is being realized in practice. "Although the material and cultural well-being," in the words of Mr. Lai Jo-yu, Chairman of All-China Federation of Trade Union who has already been quoted above, "is raised year by year, there will inevitably be problems which

cannot be completely solved for the time being. We must clearly explain to the workers what problems relating to their daily lives can be solved and to what extent, what problems cannot be solved and to what extent, what can and will be completely solved in the future when production is highly developed." The line between what can and cannot be done is partly a matter of judgment and partly of resources; and it is not easy for the worker to understand in relation to his own wages and conditions of work the bearing on what can or cannot be done in view of the need in huge investment in capital construction and industrialization. In general terms it is easy to secure assent for the view that, to quote Mr. Lai Jo-yo again 'divorced from production, any talk of welfare is empty and erroneous for no one can possibly enjoy what has not yet been produced;' but in concrete terms if it means freezing of wages or materially slowing down their rise and otherwise postponing for a considerable time the accrual of benefits of the increased production to the wage-earners themselves, it would require a level of understanding of the whole process of development both in extent and time and its ultimate ends, which cannot be imparted to all workers and not even to most workers without awakening in them social sense of high order and confidence in the judgment of the men entrusted with the task of policy-making who must necessarily decide as to what can or cannot be done in solving the problems of labour in the immediate future as in improving the living conditions in general. Some really significant improvement in the wages and life of the workers had to be made otherwise they would not have acquiesced in, much less cheerfully accepted, self-denial of the kind indicated in the statement of Mr. Lai Jo-yu; but with the real improvement that has been brought about in the level of wages and other conditions of the workers, every effort is being made to develop their insight and foresight and bring home to them the need of stinting themselves for the future. A large measure of success has been achieved in these efforts, and making allowance for the unavoidable errors of judgment and in some cases of unequal distribution

of sacrifices, generally speaking, the position as a whole is well understood and has not caused any severe or serious stresses.

Labour's contribution to the increase of production, of course, must mean much more than the preparedness to accept less favourable terms of work in the interest of capital construction and industrialization. Increase in productivity through greater application or improvement in technical efficiency or both must necessarily have the first place in production drive. Application on the part of the workers can be stimulated through the incentive of personal reward, appreciation of the fellow workers and recognition granted by the management or government and awareness of the importance of higher production for building up the new economy. The level of technical attainment can be raised through guidance, instruction and individual and group study. Brigades, shops and factories can collectively rise to more intensive efforts by promoting what is called emulation drives or socialist competition; and they can strive to excel one another by fixing and achieving higher targets of production and lower cost through the economy of time and material, better care of machines, greater co-ordination of productive processes in orderly sequence and more efficient organization of factories through rationalization in all possible ways. By providing an atmosphere in which the individuals can realize their highest possibilities, devise methods and put forward proposals, which if adopted, can both increase output and reduce cost, and what is called 'creative initiative' of the workers can be brought into play and made a very important factor in the development of production. The workers, whose output and technique are both outstanding and whose experience and skill can be used to raise the general level of performance in the industry as a whole, can be singled out for special award and raised to the level of local, regional or national heroes. The whole nation can be brought to realize thereby that conspicuous achievements in production are highly prized because they entitle the workers, who win the distinction, to appreciation and unbounded gratitude of the whole nation. All these

methods of putting a premium on higher and still higher production are being utilized to the full; and though they were in the first instance adopted because through Soviet experience the value and efficacy had been well established, they are being applied with great zeal and adaptation required by special Chinese conditions, and they have in fact yielded excellent results. As stated in an earlier chapter increasing productivity of the workers and their willingness to forego large proportion of the realized gains are one of the most important sources of capital formation and explain how China is developing her economy mainly from her own resources. This has been rendered possible because the nation as a whole has been aroused by precept and example to a sustained effort of production at a rising level by bringing new social incentives into play and taking into them the expectation of personal gain. With this effort and really as a necessary part thereof goes the new code of labour discipline which is made into a self-imposed obligation of the workers the discharge of which is regarded as one of the most important social duties; and the trade unions are charged with the functions of securing observance of this code through education, persuasion, the pressure of public opinion and in the last resort the use of social sanctions. Productivity of the Chinese workers has been greatly improved, but judged by comparative standards, it is still low; and it is essential that the effort to bring it to the level of the workers in other countries should be ceaselessly continued. The Chinese workers' industry is proverbial; and if it can be evoked to the full and hitched to modern knowledge and technique and both can be placed at the disposal of the new economy, there need be no limit to what can be achieved through this combination. Rising productivity with a social intent and content is rightly regarded as the paramount need of the situation and is being put in the forefront of the national programme.

Contributions made by individual workers, industrial units, workers in particular industries and all workers taken together, through increase in productivity and output and reduction in costs have been evaluated and are known to



have made very substantial difference to the execution of the production plans. The figures for 1954 may be cited to indicate the extent to which labour contributed to the increase in production. Compared with 1953 the productivity of labour among workers of state and jointly operated enterprises throughout the country was raised by about 15 p.c. on the average and that of communications and transport workers by 12 p.c. Workers of state enterprises under six industrial ministries of the Central Government (Ministry of Fuel, Industries, Ministry of Heavy Industry, First Ministry of Machine Building, Secondary Ministry of Machine Building, Ministry of Textile Industry, Ministry of Light Industry) have increased the value of output by 102.2 million yuans or about Rs. 20.5 crores. In the First Five Year Plan labour productivity, it is envisaged, will rise by 64 p.c. in the state-owned industries. Cost of production in 1954 was reduced by making major economy in the use of raw materials or increase in output. Compared with 1953, for example, the rate of coal consumption for generating one kilowatt hour of electricity in 1954 was lowered by 2.1 p.c. while percentage of coal extraction increased by 4.3 p.c., of oil extraction from shale by 10.4 p.c. and of daily output by blast furnace by 4.7 p.c. In the six ministries the targets of reduction of costs in industrial production were exceeded and the value of the excess amounted to 210.6 million yuans or about Rs. 42 crores. In 1955 technico-economic norms were further raised as compared with 1954, e.g. the standard rate of coal consumption was lowered by 2.4 p.c., the rate of extraction of coal was raised by 16.8 p.c. and effective utilized capacity of blast furnaces was raised by 7.9 p.c. Similar improvements are an important feature of the Chinese economy and are raising the level of production and productivity.

Each factory, industry and province reports contribution of labour to the growth of production or reduction of costs, they are publicized and individual workers and industrial units with outstanding achievements to their credit receive distinctions at all levels. In 1953 there were 223,000 model workers, and in the award of distinction the workers

participate in selection and the distinguished workers know that they and their contributions are warmly appreciated by their fellow workers. Model workers receive material rewards and preferential treatment in regard to allocation of accommodation in holiday resorts and even in places of entertainment, but the most important incentives to good work and exercise of creative ability are the social sense that higher production is the urgent need of the community and the people recognize them not merely as efficient producers but real national heroes. The cases of overstrain due to the nation-wide drive for increase of output or reduction of costs can and do occur, but taking the movement as a whole and the general improvement in position and living conditions of workers, it can be assumed that higher production and lower costs are the results of raising the level of performance rather than increase in the intensity of work.

Participation in production by labour is taken to mean participation in framing and executing production plans, keeping a constant watch on production processes, calling the management to account when production falls short of the targets and shaping policy-making decisions affecting the economy as a whole and major industries. The Executive Committee of the All-China Federation of Trade Union and the Unions of major industries have opportunities of expressing their views on and influencing decisions before they are finalized and the same applies to the labour unions at provincial or lower levels. Labour leaders occupy the position of trust in the councils of the communist party and the Government and there is no chance of the point of view of labour not receiving its due consideration and weight in major decisions. The workers are represented on the boards of state enterprises and the consultative committees of private enterprises and continuously take part in the administration of economic undertakings; and in case decisions are taken, to which they take strong exception, they can convey, through their higher unions, their views to the provincial or national government as the case may be, and press for their modification or reversal of such decisions.

The management has to report on production plans and their progress at general meetings of members, invite full discussion on the reports and pay due heed to criticism of the workers. 'Bureaucratism', it is recognised, is inherent in state control or administration of enterprises, and one of the most important ways of combating it, is 'mass supervision' i.e. vigilant watch over the management of enterprises by the workers or their representative from the administrative, technical and social standpoints. The directors of enterprises have to assume responsibility for final decisions, and as in state undertakings, they are nominated by the state and not elected by the workers, they are not subject to the workers' control in administrative sense; but without undermining responsibility of the directors, the workers are being given full opportunity to safeguard their interests, to influence decisions and to participate in the framing and implementation of production plans. They are given access to the materials for taking decisions, their pros and cons are fully explained to them and their co-operation is sought in shaping and executing them.

What is even more important than this procedure and practice is that the workers are the most important source from which managerial personnel are being recruited and augmented. The more outstanding workers are, through individual and group study, which is being specifically promoted, through participation in technical discussion and through training in extension course, short-term technical schools and higher technical institutes, being equipped to rise to the highest position in industry; and the knowledge that the very highest managerial positions are open to them, and they are entitled to receive full assistance in acquiring the necessary technical qualifications for them<sup>1</sup> could not

<sup>1</sup> Selection of the outstanding workers for training in short-term schools and higher institutions is one of the most striking features of the new economy. During the period of training, the trainees not only do not incur any expenditure whatsoever and receive free tuition, board and lodging but they also continue to receive 70 to 100 p.c. of the earnings. The proportion of such trainees in all technical institutions has been increasing and they are 30 to 40 p.c. of the total number of students in such institutions.

but be a great incentive to exertion and self-expression and also create confidence in the new economy being essentially socialist in its object and working. Upto 1953, 124,000 workers had been promoted to technical and administrative positions among whom 7,800 were factory directors and deputy directors. This 'capilarity' or upward movement of the workers has been greatly accelerated since 1953 and in the expansion and development of industries under the Five Year Plan the new workers, who have risen to top from below, are playing a very important role. Buoyancy of the workers, it need not be added, has greatly contributed to the success of the Plan and has been generated by what is really a campaign for the discovery of new talent and for differential treatment in favour of the sections who were, until lately, exploited and denied all opportunities of advancement or creative work of any sort. This is avowedly a necessary transitional phase; and when all social barriers have been removed and ability becomes the only avenue to position and influence, it may be expected that the need for differential treatment would cease to exist and 'fair field and no favour' would become the operative principle in industry, as in all other spheres of the national economy.

Wage-structure in factory industry in China before the war was known to have grown in a haphazard manner, there were wide differences between workers in the same factory, between different factories in the same industry, between different industries and places; and these differences were not related to any rational principles of general application. The workers, in the words of R. H. Tawney, 'were pitched into industry at the age of eight or nine, worked eleven to fourteen hours a day except when it (labour) was unemployed, decimated by preventible disease, unable to read and write, paid a wage insufficient to maintain it in physical health and sink in a condition of mental apathy broken by occasional fits of violent exasperation.' The extract is quoted because it summarizes the position of labour in old China and makes it possible to take a comparative view of the progress that has been made in the last seven years, but

<sup>1</sup> R H Tawney, *op. cit.*, p. 160.

more so because under the conditions indicated in the statement, wages not only could not but be extremely low but were fixed without any regard to the human needs of labour, differences in skill or efficiency or the cost of living. The mean level of wages varied from \$8 to \$27.50 per month, maximum from \$18 to \$50, and minimum from \$3 to \$18<sup>1</sup>, women were paid 25 to 30 p.c. less than the men and children, even by the standards of the time, were paid miserably low wages. During and after the war owing to upheavals and inflation the position had become much worse, and not only a new labour code based upon an entirely new approach to labour, but also an entirely new wage structure had to be built up. Stability of wages based upon stability of money was achieved in 1950, but rationalization of wages incorporating in the wage schedules differentials, related to training, efficiency, experience, arduousness or otherwise of the work, differences in the responsibility of work, cost of living, risks to health and life and attractiveness or unattractiveness of the place of work owing to its location, climate, amenities and other advantages or disadvantages of habitation, could not possibly be easily achieved in a short time. The All-China Federation of Trade Unions and the Central Government have given the matter their serious consideration, have removed obvious and glaring anomalies, put a floor to wages with some regard to human needs of labour and by social insurance, provision of amenities, development of health and other social services and sanatoria and health resorts have supplemented individual wages liberally by making 'social dividend' an element of increasing importance for the workers. In spite of these improvements it is held that a completely rational wage-structure in industry has still to be built up, and more research, experience and, of course, further development of productive resources are needed before wage schedules in each industry and of all industries taken as a whole can reflect or embody a set of principles formulated on the basis of a clearly defined wage policy. Through empirical approach a great deal was

<sup>1</sup> R. H. Tawney, *op cit.*, pp. 200-201

achieved, but wage structure, which must necessarily be a part of an integrated income structure and comprise industry, agriculture, commerce, social services, public administration and occupations which cannot be fitted into organized labour, has to be evolved experimentally and grow through and with the growth of the social structure. Given the central objective of building up a socialist society and with its increasing realization through development and organization, it would, in due course, be possible to create a wage structure which will express and embody a coherent social purpose. In the meanwhile wage structure has to be a compromise between what should be and is practicable and acquire more and more the qualities which it ultimately has to possess in the fullest measure.

The cardinal principle of social policy in China is that at present payment of wages should be based upon the principle "each according to work"—i.e. the quantity and quality of labour should determine the remuneration of each worker or group of workers. Egalitarian principle is definitely disavowed and strongly disapproved; and it is firmly held that wages and income differentials are not only not incompatible with the development of a socialist society, but are necessary for the purpose; and so long as they have a social justification and function, they are to be interwoven into the new fabric of the national economy and fulfil its need and purpose. Strong disapproval of equalitarianism is repeatedly stressed by the Chinese leaders and was pointed out unambiguously by Mr. Chou En-lai in his report submitted to the National Peoples' Congress, which has been referred to already. "Equalitarianism" to quote his words, "is a type of petty bourgeois outlook which encourages backwardness and obstructs progress; it has nothing in common with a socialist system and Marxism. Equalitarianism damps down the enthusiasm of workers and employees in acquiring technique and raising labour productivity and is, therefore, harmful to the development of economic construction. We must, therefore, resolutely oppose equalitarianism." The position could not be more clearly stated, and differences in wage-payments are, therefore, to be taken

as essential for the fulfilment of the production plans of China. This is now the orthodox Marxian view and is, as is well known, the basis of wage policy in Soviet Union. Equalitarianism is not necessarily a petty bourgeois outlook, but it, in China and all other countries, would damp down enthusiasm of the workers and obstruct progress. What is called dead level of equality had to be opposed in China and elsewhere in the interest of better technique and higher production, and wage-differentials have to be developed and applied.

The more important point, however, is the range of income variations or inequalities which is necessary and desirable for maximizing production. The Chinese leaders have not explicitly stated their views on these points; but the practice seems to indicate that wide variations of income have no place in their wage policy and they are not relying to any significant extent on income incentives for creative work at the highest level and austerity is being practised among the top leaders. From the available materials it appears that 30 to 40 yuans per month is the minimum wage and 200 to 300 yuans as a rule, the maximum in state enterprises. In private industries the owners were deriving large incomes from high salaries and profits until 1955, but they have been diminished by transformation in 1956. Considerable difference in incomes will, however, persist for a while as long as the old owners continue to receive 5 p.c. on the assessed value of their investment in industry and trade. The wage scale in heavy industries and mines is higher than in light industries, but generally 7 or 8 grades of wages are adopted. By way of illustration the scales in the Paper, Food and Cigarette industries may be given to indicate the variations in wages. In the Paper Industry the differentials between the grades were as follows. Grade I-1, II 1.15, III 1.35, IV 1.57, V 1.82, VI 2.12, VII 2.46, VIII 2.87; in Food Industry they were I.1, II 1.16, III 1.32, IV 1.5, V 1.75, VI 2.03 and VII 2.36; and in Cigarette Industry I 1, II 1.16, III 1.35, IV 1.56, V 1.81, VI 2.16, VII 2.43. These grades were applicable to the workers and for supervisory and managerial staff of higher grades, higher differentials

were introduced; but generally speaking it is held that greater spread of wages and income is needed to encourage skill and technique. The lowest basic income has to be raised, for though the position is better than before the war, it is still lower than what should be regarded as social minimum in China and probably the supervisory and the managerial staff needs to be paid at a higher rate. It is, therefore, likely that the range of wage-variations would become wider; but it may be hoped that within the limits set by the urgent need for not 'damping down the enthusiasm of the workers', the range of equalities would not be allowed to grow so wide as to militate against the essential objective of socialism. Equalitarianism may not be part of socialism or Marxism, but inequalitarianism is also against the spirit of both, and inequalities other than functional inequalities should have no place in even the transitional stage of socialist transformation and their reduction should be one of its prime objects. In his report on the work of the Government which Mr. Chou En-lai delivered on June 26, 1957 at the Fourth Session of the National Peoples' Congress he enunciated the principle of wage structure under socialism in the following words:

"In a socialist society there should still be a certain amount of difference between the payment given by the state for simple and complex work and for manual and mental labour. It would have a bad effect on the raising of labour productivity and the improvement of vocational and technical skill if we were to abolish such differences. So on the one hand we should oppose undue discrepancies in wages and on the other hand oppose equalitarianism."

In 1956 a fairly comprehensive measure of wage-reform was carried out, as stated later, which, besides rationalization of the wage structure, involved lowering 'the salaries of heads of enterprises and high ranking personnel in state organizations.' Such re-adjustments have necessarily to be a continuous process but 'undue discrepancies in wages' have to be purposefully avoided in order to realize the objectives of a socialist society—even a socialist society in the making.



According to Mr. Chou En-lai's Report in 1957, referred to above, the average wage of all workers and employees rose from 446 yuans p.a. in 1952 to 610 yuans p.a. in 1956—an increase of nearly 37 p.c. in four years. Mr. Chou En-lai also referred to, in the same Report, the disparity between the average income in agriculture and industry. The former, according to the Report, is 300 yuans p.a. while the latter (average industrial wage) is, as stated above, 610 yuans p.a. This disparity is, as pointed out by Mr. Chou En-lai, partly neutralized by the lower cost of living in the countryside but only partially. The industrial workers, taking into account also their 'social dividend', are definitely better off than individual agriculturists or even members of the farming co-operatives. This disparity is likely to persist and present one of the very intractable problems of the new economy. Special efforts will have to be made to solve it. It will not solve itself. Moreover, under no circumstances should main reliance be placed on material rewards for stimulating creative work at the highest level. Material rewards for innovations within limits may be legitimate and also higher payments to the model workers; but high money rewards for the men who have to and must combine the highest technical ability with social vision and work with understanding of the ultimate goal would be unnecessary, inappropriate and against the spirit of socialism.

At present most of the leaders of industry, as in other spheres of national economy, are men and women who have been trained by practice in long years of struggle and they are likely in due course to be succeeded, as stated already, by persons who have professional qualifications for their duties and have risen to the top from lower positions; but even when this happens, it may be hoped that there will be no premium on inequalities as such, conspicuous waste in living in all forms would be scrupulously avoided and social norms will be maintained in which work for the community largely will be its own reward. Since socialism in China has according to the accepted view, to develop into communism and "from each according to his capacity and to each according to his needs" has to be its operative principle,

any attempt to match income to the importance of work at the top and evaluate it in terms of money would not only fail in its purpose—for in socialism the qualities needed for the work at the top not only cannot be measured by any money calculus and cannot be obtained through it but also frustrate the growth of a truly socialistic society. At present, as stated already, there is no contradiction between socialism and the present range of wage variations, and even the later can be widened without impairing the basic objective of the transformation now in progress. Further, rationalization of wage and income structure is needed and will, as stated before, have to be realized experimentally, but it should and would not require the removal of ceiling or the fixation of unduly high ceiling for the highest brackets of income. In this respect the Soviet practice need not be taken as a guide to action and probably would have to be materially modified in the light of the Chinese experience.

In June 1956 the State Council passed a resolution on Wage Reform and provided a basis for a revised wage structure. Main features of the Reform are: (1) The average wage of workers in enterprises and government apparatus is to be raised in 1956 by 14.5 p.c. as compared with 1955. Workers in heavy industries and new construction and industrial centres, high grade technicians, high grade scientific workers and primary school teachers are to be accorded greater wage increase than the average. (2) Wage differentials between skilled and unskilled, heavy and light industries is to be widened and (3) Piece wage system is to be extended and the system of premium payment for exceeding the norms is to be improved. The intention, it is clear, is to put a premium on efficiency, hard work and improvement of technique and to provide incentives for *worker to move to new and relatively less attractive centres*. The reform is well conceived and justified by the needs of the economy and does not introduce any features to which exception can be taken on socialist premises.

Social insurance in China has been introduced for industrial labour with due caution, but the progress achieved so far indicates that a good start has been made and its

further extension and development may well be expected. The Labour Insurance Regulations were first promulgated in February 1951 and were amended in January 1953. The regulations originally were made applicable to railways, posts and tele-communications and water-transport and the factories and mines employing hundred or more workers. In 1953 it was extended to capital construction units of factories, mines and transportation enterprises and state-owned building construction units. Even before 1951 labour regulations were in force i.e., before they were formally promulgated. In 1949 their coverage extended to 600,000 workers, in 1950 to 1,400,000 and in 1951 to 2,000,000. Since then it (the coverage) has been extended in 1952 to 3,300,000, in 1953 to 4,800,000 and in 1954 to over 5 millions. Beside the coverage of the labour regulation, benefits of free medical service at public expense is provided for about 5 million state employees, and the trading, handicrafts and agricultural co-operatives within their means, as stated before, are making provision for medical assistance to their working members and employees and also building up funds for granting aid to the needy families. Provision of social security, in principle, has been accepted as a primary obligation of the community and its scope is at present limited only by the available means. Its extension and development would keep pace, it may be expected, with the increase in production and expansion of the economy.

Labour insurance at present provides for (a) medical assistance and allowance during sickness leave, (b) maternity leave with pay and anti-natal and post-natal care (c) old age pension (d) funeral allowance and family pension for lineal dependents and (e) disablement benefits and invalid pension. There is no provision for unemployment insurance presumably on the assumption that with expanding industrial production the risk of unemployment in industry may be taken to be non-existent. Medical treatment is granted as long as it is needed, and 60 to 100 p.c. of the workers' wage is paid for the first six months. The old age pensions are granted to the men at the age of 60 and the women at the age of 50 after 25 or 20 years work

respectively including five years in the enterprise concerned and amount to 50 to 70 p.c. of the wages at the time of retirement. Maternity leave with full pay is granted for 56 days in normal cases and 70 days in difficult cases. Funeral allowances amount to two to three months' average wages of the diseased worker, 6 to 12 months' wages are paid to the lineal dependents according to the number of dependents and 25 to 50 p.c. of the wages is paid to them as monthly relief benefits. Invalid pension in case of disablement amounts to 40 to 50 p.c. of the wages. These benefits are supplemented by provision for medical relief and assistance by the management or owners of the enterprises and charged to the accounts of the concerns, by the subsidies granted by the state for the development of health and other services and by special grants made by the National and Regional Trade Union organizations for distribution of aid to the families whose special needs cannot be covered by the above benefits or provisions for relief. Besides the allotment made by the state and enterprises for relief and assistance, the main source of funds for meeting insurance liabilities is the contribution of three p.c. of the wage-bill by all concerns. This fund is held by the Peoples' Bank to the credit of the Labour Insurance Organization which is administered by the Federation of Trade Union. For this purpose the Federation, besides having whole time employees, who are paid from the insurance funds, obtains voluntary assistance of a large number of workers; and it is a function of the primary and higher unions to protect the rights of the workers under the Regulations and ensure that the benefits to which, they are entitled, are in fact enjoyed by them. In 1953 the 3 p.c. contribution nearly amounted to 200 million yuans or nearly Rs. 40 crores. On account of the increase of wages and of the members in 1954 another 30 to 40 million yuans were added to the resources of the Insurance Fund. From 1952 to 1957 the disbursement of state enterprises and organs of Labour Regulations for Labour insurance, medical care, welfare services and cultural and educational facilities are estimated to amount to 5,000 million yuans or about Rs. 1000 crores i.e.

on the average about Rs. 200 crores are to be spent annually for the industrial and other organized workers for providing for them social security and social services. This would amount to 16 to 20 p.c. additions in real terms of the wages of the workers; and as the real wages after having been increased by 60 to 120 p.c. from 1949 to 1952, are to be increased further by 33 p.c. during the plan period, increase in real wages, during this period would be between 50 to 55 p.c.<sup>1</sup> In spite of the fact that wages are not being raised as fast as productivity and output are rising, improvement in the wages and living conditions of the workers brings them the assurance that their interests are being duly considered and it is not all self-denial on their part notwithstanding heavy investment in construction and development.

Constitution and organization of the Trade Unions are, like the political system of China and the constitution of all 'mass organization' based upon the principle of 'democratic centralism.' This in practice means that there is direct election and accountability to the voters at the primary level, and the higher organ, i.e. Hsien, provincial and national unions and all-China Federation consists of representatives elected by the lower unions and the latter are under the direction and control of the higher unions. Besides the vertical trade union organizations i.e. basic unions and the higher federal units with the national union at the top, there are also horizontal organizations i.e. at Hsien, city or Provincial level, there are also federal unions of all industrial and other commercial unions which operate on territorial basis and deal with Peoples' Government at that level. The All-China Federation of Trade Union consists of

<sup>1</sup> Another substantial benefit, which the workers are to receive in this period, is that 48 million square metres of housing will be built for them during this period and as the new houses are being built up to modern standards with lighting, heating and sanitary facilities, rents for the new houses are low and provision is being made for the development of community life through clubs, gymnasia, theatres, common baths, schools hospitals and recreation through sports and cultural activities, these large housing estates mean very significant improvement in the workers' life and comforts and involve a radical change in their every-day habitat

the representatives of the regional unions and through them directs, guides and controls the whole labour-union organization. Every factory or mine with more than 25 workers has its union committee, and besides workers in factories and mines, all government employees, intellectual workers in educational, scientific and cultural institutions, all employees in transportation, commercial and constructive organizations and all other wage-earners have their directly elected basic committees and pyramidal organizations of representatives and national unions. The members of the basic committees are elected every year, of all higher unions up to the national level every two years and the All-China Federation of Trade union has its National Council the members of which are elected every four years. The basic union has its general meeting, at which the Union Committee is elected, the working of the union is reviewed and plans for the future are discussed and decided. The local, regional unions, whether industrial or territorial, hold their conferences every two years at which members of the committee and also representatives to the higher conference are elected and matters of general interest, from the standpoint of their own industry and the country as a whole, are discussed and their views or decisions on it are formulated. The All-China Federation of Trade Unions meets every four years, elects its council and discusses the economic, industrial and labour policy from the broad standpoint of the nation and labour as a whole and lays down directives for the next four years. The Congress, besides providing a forum for discussion, expresses views on all major problems and indicates the manner in which the labour unions can carry out national decisions and serve the community as a whole. Being an important organ of national economy and not merely of labour unions, it has to acquire and exercise breadth of outlook, and while protecting and promoting the interests of labour, has to direct the organized strength of labour for accelerating the development and transformation of national economy, which again means that the Federation is not a militant organization fighting for the rights and interests of labour but institutional expression of the

change in the position of labour and a powerful instrument for formulating and executing national economic and social policies.

The Factory Committees work through various functional units generally known as commissions e.g. Labour Insurance Commission, the Wages Commission, the Cultural and Educational Commissions, the Housing Commission, the Holiday Resorts Commission etc., negotiate annual collective agreements and perform their educative and supervisory function. In large factories there are also shop committees with similar functional units and there are groups or brigades with their elected leaders and agents for labour insurance and other corporate activities. The basic unions, besides the annual meeting, hold other general meetings at which production plans, progress of their implementation and all other matters of general interest are placed before the members and free discussion invited and promoted. The higher industrial and territorial federal union also have their executive committee with their functional units or commissions and afford opportunities to their members to specialize and operate on a wider basis. There are 25 Provincial and 3 Municipal Federations (i.e. of Peking, Tienstin and Shanghai which are directly under the Central Government) and 15 National Unions. The latter represent (1) Heavy Industry (2) Railways (3) Tele-Communications (4) Textile Industry (5) Machinery Workers (Defence) (6) Other machinery workers (7) Mine Workers (8) Transport Workers (9) Electric Workers (10) Seamen (11) Building Workers (12) Light Industry (13) Forestry and Water Conservancy Workers (14) Educational and Cultural Workers and (15) Commercial Workers. The basic and higher Unions have their whole-time workers, who are all engaged in production but are, if necessary, relieved from it and during their term, receive their wages which they were drawing when in production from unions funds and devote their whole time to union work. The Trade Union Law lays down the number of full-time Union functionaries. Their number varies from 1 to 5, 1 for units which have 200 to 300 workers and 5 for the large factories from

2,501 to 4,000 workers. For every 2,000 workers over 4,000 another whole time functionary has to be provided. Most of the Committee members of the basic union and other active workers have to combine their union activities with production, and a very large number of workers thereby acquire experience of public work through the union activities. Each factory or basic unit has only one union which is recognized and registered, and each industry at the various level has one federation. At the territorial level also there is one federal union of all industries in a particular area. In other words, the principle of 'one unit-one union and one industry-one union' is fully realized in the organization of labour, and it need not be added, it enables the unions to function with unity of purpose and on an integrated basis.

The All-China Federation of Trade Unions is constituted at the Congress of the representatives of Provincial and Municipal Unions which, as stated already, meets every four years. It elects a council of 92 members and 42 alternates who elect an executive committee of 24 members, three Vice-Presidents and one President. The Council administers through the Executive Committee the affairs of the Federation, with nine full time Secretaries and 13 departments including Research, Propaganda, Special Problems of Women Workers, International Liaison, Wages and Labour Insurance. The other six departments are concerned with internal organizational matters. The Federation has its own paper, its own publishing house and its Cadres Training School. The trade unions not only find and train cadres for trade union work, but also help in the discovery and training of persons of ability as cadres for administrative and managerial positions in industry and even for responsible work in the communist party organization. Political training of cadres and members is given the highest importance and competence in this respect is considered essential for cadres and full time functionaries.

The funds of the Federation are derived from three sources (1) Entrance fee of members at 1 p.c. of wages and monthly fee also at the same rate (2) Income from publica-



tions, press and various other sources and (3) 2 p.c. of the entire wage bill including payment in kind contributed by the management for union work. Of the receipts from membership fee 70 p.c. is allocated to the basic units, 20 p.c. of which is earmarked for assistance to families with special needs of their own. Ten per cent of income from membership fee is assigned to the Provincial Union and subsidies to the basic units which cannot meet their own expenses from their allotted income and 20 p.c. for All-China Federation for its administrative expenses and grants to the Provincial and Hsien federations. Of the income derived from the 2 p.c. contribution of management, 50 p.c. is allocated to the basic units for educational, cultural and recreational activities, 10 to the Provincial and local federation for the same purpose, and 40 p.c. is utilized for maintaining the cadre training schools at all levels. In 1953 the Federation received about 200 million yuans from the membership fee and the management contribution. The state provides buildings needed for the Federation and federal unions and the management is under the obligation to provide accommodation for administrative work and other activities of the basic unions.

One of the most important functions of the Unions is to build holiday homes, sanatoria, rest houses, clubs and stadiums for sport and recreational activities. This function is being performed at all levels and has brought a lot of cheer and good fun into the life of the workers. In 1951 there were 90 sanatoria run by the All-China Federation and Provincial and National Federal Unions had their own sanatoria. These institutions provided over 15,000 beds and 42 new sanatoria with 6,500 beds were under construction. The factories and mines had sanatoria of their own with 36,009 beds. Up to 1954 about 800,000 workers had availed themselves of the benefit of these institutions. There were also 364 what are called cultural palaces in large cities and 4,073 clubs in the basic units. The sanatoria and the clubs are very well equipped and the best among them do not compare unfavourably with similar institutions in Soviet Union and the other Socialist countries. These institutions

have libraries, theatres, dancing halls, indoor games and rooms for group work—literary, cultural and technical—which is being specially encouraged and developed. These collective welfare institutions are both symbols and expressions of the new life for the workers. There they are not only learning how to use their leisure well but also being given opportunities to cultivate music, literature, art and social graces and do so with the knowledge that they are thereby developing their own gifts and participating in the growth of a new culture to which all can have access and to which all can contribute. The idea, which in China had perhaps taken deeper root than in the other countries, that only the select few can acquire, absorb and promote culture is, through these institutions as through the impact of the new outlook and the educational system, being combated and uprooted. The view, that culture is and should be the heritage of all, borrow freely from other cultures and yet retain its identity, is being presented in many diverse forms and assimilated through the various activities of these institutions. With it the ivory-tower concept of culture is discarded and culture is accepted and promoted as a function of life as a whole. The sanatoria improve health and all modern aids for recovery are available in the best among them; but they are also being used for the diffusion and development of the new culture. The Trade Unions, by devoting special attention to the building up of holiday homes, sanatoria and clubs and equipping them magnificently, are unfolding the beginning of a culture of the masses and creating possibilities of great significance. The culture of the scholars and recluses, which has been dead in China for a long time, is not only being buried but also replaced without losing its best contributions. This is being done on a large scale and in many forms in new China but the Trade Unions are, through these institutions, playing a very important part in contributing to the development of the new mass culture.

In the Trade Union Laws there is a provision for the settlement of labour disputes, but strikes and lock outs have no place whatever in the settlement procedure. The-

are ruled out as a method of settling disputes. The procedure provided for is simple and is meant to be effective. Labour disputes, concerning working conditions, engagement or discharge of workers, labour insurance, operative rules or collective agreement in all labour disputes, have to be settled in the first place by mutual consultation between the parties concerned. In case of irreconcilable differences they have to be referred to the Labour Bureau of the Peoples' Government at the corresponding level i.e. its Labour Department. The latter has to firstly set up an investigation and mediation committee, but if the latter fails to produce agreement, the dispute has to be committed to an arbitration committee whose awards, if found unacceptable, has to be adjudicated upon by a Public Court whose decision has, of course, to be enforced. The negotiations between the parties have not only to be directly conducted but also through higher trade unions and employers' organizations at higher level; and it is when these negotiations fail, that mediation, arbitration and adjudication have to be resorted to, if necessary; but during the pendency of the disputes i.e. when conciliation, mediation, arbitration or adjudication are taking place, the status quo is to be maintained and no violation of the existing arrangement is permitted. Labour disputes in China have neither been serious nor frequent. As a matter of fact no material is available on the basis of which their gravity or frequency can be judged, and the presumption is that when the disputes occur, they do not present a serious problem and either they are settled without invoking statutory procedure for their settlement or the machinery is working very smoothly.

This position can be and has been interpreted in two ways. One is that the trade unions are in no position to press their demands, have to make the best of the situation, accept such favours as are granted by the state and acquiesce in the decisions of the government. The other is that as the state is the workers' state, no grave injustice can be done to them by it; and taking the larger view of the whole position, the best is being done for the workers and a real grievance of their cannot remain unredressed for any length

of time unless there are insuperable difficulties in the way of removing or redressing the grievance. Owing to the trade unions being under the control of the Communist Party in China the first interpretation can be given a semblance of validity and complete lack of freedom on the part of the Trade Unions posited as a reason for the maintenance of industrial peace in China. This view is widely held by the exponents of the 'free trade union' movement position and is being used as an aid to heated controversy. Logically it cannot be easily refuted, but one or two considerations need to be taken into account in assessing the real position. In the first place if freedom of the trade unions cannot be maintained without giving them the right to strike, the freedom is being increasingly circumscribed in even most democratic countries and mediation, arbitration and adjudication are being more and more relied upon for the settlement of labour disputes. The right to strike is, even under the most favourable auspices, accepted as a serious though necessary evil and the trend is definitely in the direction of limiting this right. In a socialist society, rationally speaking, the right has to lapse, for even in a decentralized socialist state, the workers cannot be permitted to hold the community to ransom. That would be an exceedingly undemocratic procedure for any section of the community to make its will prevail against the latter. There has to be evolved a procedure of the kind which the Trade Union Law in China lays down for the settlement of labour disputes. If benevolent neutrality of the state, if not its definite partiality for labour, can be assumed in labour disputes, no other procedure can be resorted to in a rational social order. Strike and lockout as rights amount to settlement by sheer force, and in a well-ordered society cannot but be taken as survival of the 'law of the jungle', and therefore have to be abrogated in the interest of the community. The only condition, if this abrogation is not to mean industrial serfdom, is that the scales should not be weighted against labour as now they are known to be in most non-socialist countries. That it is not so in China admits or should admit of no difference of opinion. The improvement which has un-

deniably occurred in wages, living conditions and prospects of labour in China is against such presumption. Labour has been and is getting a much fairer, if not absolutely fair, deal is fully supported by the facts of the case. Does it follow therefore that the trade unions in China are free? The answer to the question depends on the major premises with reference to which it is raised and is therefore necessarily interwoven with the whole question of the assessment of the entire economic and political system in China from the standpoint of freedom. Whatever be the answer, only a rigidly doctrinaire approach can point to the conclusion that China, far from winning freedom has actually lost it in the last six years, and her liberation from herself is her appointed destiny. Relatively speaking or rather putting the matter at its lowest, the present position of labour in China compared with its position any time in the last hundred years and particularly in the last thirty years, is a state of real emancipation. There are certain limitations inherent in the present system; but even making allowance for them, there is no warrant for the view that labour in New China is in bondage. As stated above, the facts clearly point to the opposite conclusion and true friends of labour should have every reason to rejoice that the position of labour in China has changed in the last six years so much for the better. It is not an ideal position and there may possibly be a risk of the new freedom turning sour; but that, however, is no reason or justification for denying the obvious and enormous gains which labour has secured in the new economy of China.

A word in conclusion may be said about the relation of the Trade Unions with the Communist Party, for its consideration is relevant to the main point of the preceding paragraph. The official view is that, to quote again from Lai Jo-yu, 'the trade union organizations in our country have become powerful transmission belts between the Communist Party and the broad masses of the workers. They are a strong pillar of the peoples' democratic dictatorship.' This, in effect means of course that the trade unions are an integral part of the new social polity and express and pro-

mote its main purposes; and this is a true statement of the existing position and relation. All leading positions in the Trade Union Organization are held by the members of the Communist Party, a large number of whom are old seasoned revolutionaries and bear scars of the struggle through which they have passed. Political education and awakening of social consciousness of the workers, on which, as stated before, great stress is being laid, means they are increasingly imbibing the ideology of the Communist Party and are well grounded in it. The new cadres are being built up from among men and women, who besides having gift of leadership, experience of and contact with labour, are completely reliable from the political standpoint and their faith in the new credo is above suspicion. The Communist Party at all levels is in close touch with the Trade Union Organization, relies upon it for carrying out its aims and policies and renders it full assistance because it believes that it is through them that their conception of the new state can be realized. There is not and in the existing situation, there cannot be, any divergence of views and objects between the Communist Party and the Trade Union Organization, and for the matter of fact of any other mass organization or organ of the new life of the community. It, however, does not follow that the Trade Unions do not have their independent functions, their own rules of the game indicated by their own spheres of operation or their own distinctive contribution to the growth of the national economy. Integrated action at a time of developing social revolution is essential and unavoidable, but differentiation of functions, technique and even impulses becomes more and not less necessary on that account. Democratic dictatorship of which the Trade Unions are taken to be 'a strong pillar,' is or at least should not be meant to imply subservience to the Communist Party; and though at times in practice leadership of the latter may amount to complete dominance by it, it would defeat its own ends and arrogate to itself functions which it cannot discharge if complete dominance of the Communist Party over the Trade Union Organization becomes the rule; and it denies to the latter

independence of judgment, freedom to develop from within the light of its own needs and experience and to frame its organizational and functional policies within the general limits of major decisions. 'Democratic dictatorship' has its own framework within which the Trade Union Organization and all other institutions, have to function; but the latter has a role of its own in the development and working of the new economy which it cannot fulfil without wide latitude for experimentation and building up general consent of its members for its measures and decisions from below and securing their active allegiance for them. Social craftsmanship in a revolutionary situation is an art in the practice of which rules of thumb or a well-chartered course, cannot be followed; at times the temptation to enforce conformity rather than evolve unity cannot be resisted, the more so when a body like the Communist Party has made centralism the guiding principle of its *modus operandi*. All the same this art requires that there should be differentiation of institutions, functions and spheres, and encroachment on the field assigned to specific organs should as a rule be avoided. Though firm assessment of the position would require more material than is available at present, generally speaking it can be stated that the Trade-Unions in China are, within their delimited sphere, growing according to their needs and in response to the indications of their concrete experience.

## CHAPTER X

# DEVELOPMENT OF COMMERCE AND COMMUNICATIONS

BEFORE THE war owing to the absence of communications, complete demoralization of the middlemen and monopoly of external trade by foreign interests, commerce in China was having an extremely distorting effect on her economy and exhibited its malais in its worst form. The markets were mostly localized and could be and were easily rigged, the peasants had to sell under heavy pressure, had no bargaining power whatever and were entirely at the mercy of the dealers who exploited the position completely and ruthlessly to the serious disadvantage and not unoften ruin of the peasants; the prices varied widely in places not wide apart from each other and in different times of the year; the distribution of commodities was exceedingly defective, large surpluses and acute scarcities could not be matched with each other and appalling local famines occurred even when other and not distant parts of the country were suffering from the effects of excessive harvests;<sup>1</sup> and foreign trade did infinite harm to

<sup>1</sup> An extract from R. H. Tawney's *'Land and Labour in China'* bearing on this point is given below because it states the position very clearly

When so much of the produce is sold, the prosperity of the farmer depends on the margin between costs and price, and the margin on the character of the marketing system. The subject has not yet been adequately studied, but it is clear that the scales are somewhat heavily weighted against the producer. Except for certain limited areas, railway and motor traffic are insignificant, and, as far as the mass of peasants are concerned, might as well not exist. Apart from water, the usual means of transport are carts, mules and donkeys, especially in the North, wheelbarrows of a size which almost make them into carts propelled by men, and the shoulders of human beings. Bad communications and primitive methods make the cost of moving crops far afield almost prohibitive. Mr. Arnold has remarked that, if farmers in Shensi were to make a present of their



the country for it retarded its industrial development, seriously damaged the position and prospects of the handicrafts and created a network of relations in which the whole economy was made subservient to foreign interests, political integrity of the country was undermined with a set purpose and powerful feudal and commercial interests were enmeshed, as stated before, into a subsidiary alliance with foreign interests and served and promoted the designs of the latter.

The war, the civil war, inflation and the increasing corruption and ineptitude of administration had by 1949 created a chaotic position for commerce. communications had been completely disrupted, price mechanism was functioning in a frenzied manner and exchange of commodities, i.e. trade within the country and with other countries had been almost paralysed. For economic recovery and rehabilitation it was of paramount importance that the flow of goods should not only be revived but completely re-organized, the channels of commerce re-opened and utilized for serving and not impoverishing the people and commerce made a powerful instrument for building up the new economy. Security of life and property and stability of prices had first to be realized for without them even beginning of economic recovery was impossible and, of course, no advance towards new horizons was even thinkable; but it was essential to plan and erect on entirely different com-

grain to mill-owners in Shanghai, it would still pay the latter better to import grain from Seattle than to pay its freightage in China; while rice is fetching \$ 10 in Hangchow, it is sold at \$ 15 in the hill regions of the same province; wheat has been known to sell in Szechuan at barely more than one-tenth of its price on the eastern coast; in parts of the country the expense of moving it fifty miles exceeds its price in the place where it is grown. As a result, there are a multitude of little localised markets, in which prices fluctuate violently with every change in the local supply, and, while consumers in one region are threatened with famine, farmers are ruined in another because they cannot dispose of their surplus. The difficulties caused by lack of tolerable communications are aggravated by internal taxes. In the eighty miles between Peiping and Tientsin, seven tax barriers were till recently passed. A cargo of soya beans sent by the producing district of Fuchin to the manufacturing district of Harbin had to pay, it is stated, no less than twenty two separate dues.

*R. H. Tawney, op cit. pp 55-56*

mercial structure and assign to it new purpose and functions. This object has actually been achieved in a very large measure, and an apparatus has been brought into an efficient working order which not only carries out basic purposes of the new economy but is and will be one of the most important instruments of social transformation. In commerce, as much as in agriculture and industry, the changes have been far-reaching and profound and have paved the way for greater changes in the further development of the new economy.

Most of the internal trade of China in rural areas is now conducted by the trading co-operatives whose organization and working have been described in Chapter VI. These co-operatives have already covered most parts of the country; and their scale of operations clearly indicates that they are likely to become the major agency of commerce in rural areas. They are, however, closely linked to the state trading organization which has been developed extensively and rapidly in the last six years and is now well on its way to become an all-embracing commercial organization in the country. It is largely a purchasing and distributing organ of the state in wholesale trading, though it does also include retail sales within its functions. It has its purchasing corporations which specialize in a group of related commodities and assume the function of acquiring them for all requirements of the community—i.e. for the marketing and supply societies, the consumers' co-operatives, private trade until 1955, public organizations, defence forces, industrial firms, construction companies, handicrafts co-operatives and export corporations. These corporations enter into contracts with the supplying agencies—agricultural producers' and handicrafts co-operatives, industrial firms and import corporations for the supply of specified commodities at stipulated prices and undertake to deliver them to their customers. They arrange with the carriers, mostly transport corporations, railways, motor transport companies, inland shipping and coastal shipping companies, for the carriage of the commodities to the distributing centres, where the warehousing depots of the distributive organization take them over and distribute among the customers i.e. the various agencies referred to above. These depots specialize in dealing in particular groups of

commodities and distribute them through the Departmental Stores which are omnibus agency for the distribution of the commodities on a wholesale basis. These stores deal with the units which either need them for production or for retail distribution. The prices at which they sell them are, making allowance for the difference in the cost of transportation, more or less uniform in the country except that the co-operatives get them at concession rates which are generally three per cent lower than the standard rates. All inter-corporation or inter-firm transactions are made on cash payment basis, i.e. they have to draw upon the funds placed to their credit by the state with the Peoples' Bank and do not extend to or receive any credit from one another.

The commodities for retail sale are distributed through (a) the trading co-operatives (b) private traders until 1955 and (c) designated agents who are generally private traders who have gone out of business owing to its having been displaced by the State Trading Organization and State-Private Joint Stores but the latter, i.e. the Department Stores, have also their retail shops or stores which sell directly to the consumers. The prices charged at these retail stores do not differ materially from the prices charged by the other distributive agencies, and a structure of uniform prices with variations within a limited range, is being built up which not only provides commodities at prices which do not fluctuate but also at prices which are determined by general principles applicable to all retail sales in the country and which can be taken to have an inherent validity of their own. The Trading Corporations, the Depots, the wholesale Department Stores, the retail Department Stores, new State-Private Joint Stores and the Co-operatives of Small Vendors are the constituent units of the State-Trading Organizations which, together with the trading co-operatives in rural areas, constitute the net-work of public trading agencies built up in the last seven years, which dominate the whole field of internal commerce and now practically occupy it completely. Even before this network was completed, the private retail stores were not an independent factor in the market and could not disturb it by their dealings. The prices, which the

latter charged were also fixed in effect by the state trading agencies and their business was subject to the vigilant control of the public authorities i.e. the commerce bureaus of the Peoples' Government at all levels and the Department Stores. The latter are themselves subject to the dual leadership of the Commerce Bureaus and the Provincial and the All-China Department Stores. In framing the plans and their execution this dual leadership is maintained at all levels and commercial and wider social principles are co-related. The public trading agencies having been created to serve, safeguard and promote public interest, have to treat considerations of common well-being as paramount in the discharge of their functions and the problem of co-relation, therefore, cannot raise any divergent issues. All the same it is of advantage for the state trading agencies to be guided by the administrative authorities of the state for the latter, being in contact with all policy-making organs, can indicate the bearing of the general policy on their work and make use of their experience for wider purposes. The commercial transactions, wholesale and retail, are the mirror of the entire economy in action and are, therefore, of vital interest from the standpoint of directing, operating and steering the economy

The State Trading Corporations operate on a nation-wide basis and purchase commodities for distribution to the wholesale enterprises. They, ordinarily, except in the case of commodities to which the system of monopoly procurement is applied, purchase them, as stated already, on a contractual basis, and their contracts are entered into according to the estimates of planned requirements of these commodities. These planned purchases are subject to the direction and control of the Ministry of Commerce. There are 11 purchasing corporations and the All-China Department Store with its depots, wholesale and retail stores is the 12th commercial corporation. These 11 corporations are divided into three major groups, which for convenience may be called Commercial Trusts. In the first Trust are grouped together corporations dealing in (1) metals and machinery (2) chemical engineering articles and (3) transport and electric goods; the second Trust com-

prises corporations dealing in (1) raw cotton, yarn and cloth (2) coal, cement and construction materials (3) tobacco and wines (4) medicines and medical instruments and (5) petroleum; and the third Trust includes corporations dealing in (1) oil and fats (2) non-cereal foods like eggs and meat and (3) jute, herbs and other products. Food, its purchase and distribution, is under the control of the Food Ministry which has its organization for procurement, purchase, distribution and rationing of cereals. These corporations have their head office in Peking and branches at Provincial, Chu (district) and Hsien (county) level, but some of the corporations do not function at the lowest level. Below the Hsien the trading co-operatives are used as agents of the Trading Corporations, and they also procure, purchase, collect cereals for the Cereal Corporation on a commission basis. In July 1953 there were over 16000 units of the State Trading Organization and they, excluding the administrative staff, employed nearly 405,000 men and women, of whom the latter were about one-third. Owing to the expansion of the organization now the number is much higher and is increasing. A large number of them have been taken over from private trade for whom re-training courses have had to be provided. A very large proportion of them have been specially recruited for public trading, have been trained in courses of different durations, and for training supervisory personnel a special institute has been started at Shanghai and is providing 4 years' course for 5000 trainees. The salary scales of these employees vary from 40 yuans per month to 200 to 250 yuans and they are entitled to insurance and other benefits. The State Trading Organizations being in a state of growth, the position is still far from set in regard to organization, division of functions, delimitation of sphere and the technique of operation. The basic purpose of the Organization not being in doubt, its development has to proceed on an experimental basis and it has assumed new forms and functions in the light of actual experience in order to fulfil its tasks with increasing competence and fuller understanding of the needs of the growing economy.

These corporations in their relation with the private industrial firms had until 1955 recourse to (a) ordering (b) processing

(c) acquisition of the total output of individual firms or (d) the total output of the industry as a whole; and through them these measures were taken by the State Corporations to direct the production and fix prices of their commodities without public ownership of these enterprises. The benefits of state capitalism were thus realized in practice without the state actually participating in management or ownership of industry. In 1954 in 8 leading cities—Shanghai, Tientsin, Peking, Wuhan, Canton, Mukden, Chungking and Sian the output of private capitalist enterprises, which accepted government orders for manufacturing, processing and selling accounted for 80 p.c. of the total value of their output. These measures together with 'mass supervision' by labour, to which reference was made in the last chapter, integrated private industrial production with the planned production of the country as a whole; and conflict between public and private interests and the lack of co-ordination between public and private sectors were thereby largely avoided.

These corporations not only became the agencies through which the available commodities are distributed among the producers and the consumers, but they also functioned as the steering wheels for the whole economy and the organs through which the production, price and general economic policies of the state were put into effect in private industrial sector.

For wholesale distribution of the commodities the Trading Corporations sell, as stated above, to the Depots and Stores, and the latter sell at wholesale rates consumers' goods to (a) Marketing and Supply Societies (b) Consumers Co-operatives (c) Retail Department Stores (d) private traders or their co-operatives. Raw materials and producers' goods are sold by Trading Corporations to (a) industrial firms (b) government organization and (c) construction companies. There are administrative offices of the Department Stores at the central and provincial level which perform purely directorial function and do not themselves deal in the commodities. In 1954 there were 54 Administrative Offices at the Centre and in the Provinces. The Stores dealt in 14,000 varieties of goods and the business in volume trebled from 1951 to 1954. The employee of all these organizations were almost completely

organized into trade unions, had the benefits of labour insurance, and were given opportunities for business training during working hours in the stores and also through short-term schools and for advanced studies in special trade institutes and the People's University. It need not be added that all employees received political education, and had to acquire understanding of the Marxian theory and of the line of transformation in the transition period. All key positions in the organization are held by the persons whose revolutionary faith is above suspicion; and who can be counted upon to impart or transmit it to their employees. The organization has, as stated above, absorbed a large number of displaced private traders and has had to re-educate them in the technique of socialist commerce. This has necessitated careful training and vigilance, but the integrity of the organization has, it is reported, not only been maintained but also developed and corrupt practices in business have been practically stamped out. The State Trade Organization is not a gigantic association of shop-keepers, doing business on public account; it is as pointed out already, a very important organ of social transformation; and it is essential that all its members should be fully aware of its role in the national economy and live up to it to the best of their capacity.

The growth of public trading in both retail and wholesale business has been very rapid. Even in 1950 the state and co-operative trading accounted for 23.8 p.c. of the national total of wholesale transactions. In 1952 the proportion rose to 63.2 p.c., and by 1954 it was over 89 p.c. Since 1953 the state has been purchasing the bulk of grain, oil, cotton and other industrial raw materials and also most of the products of private industry. Now there is hardly any private sector in wholesale trade. In retail turn-over of goods the state and co-operative trade accounted in 1952 for 32 p.c. of the total volume in retail sales in the eight major cities referred to above and 38 p.c. in 1953. In the total volume of retail sales in the country the proportion represented by the state and co-operative trade was 41 p.c. in 1953, rose to 58 p.c. in 1954 and the total retail sales amounted to 39,100 million yuans. The pace of transformation was regarded unduly rapid and

in 1954 the proportion accounted for by public trading was reduced to 51.7 p.c. of the total volume of retail sales but in aggregate they amounted to 42,600 million yuans or about 10.4 p.c. more over the previous year. By 1957 it is estimated that the total retail sales would amount to 49,800 million yuans about 80 p.c. more than in 1952 of which the state and co-operative trade would account for 54 p.c. various forms of commercial enterprises, in which private traders perform agency function for public trading, 24 p.c. and private traders 21.1 p.c. Since 1955, however, in retail trade, as in agriculture and industry, socialist transformation of private concerns has been greatly accelerated; and in 1956 the state and co-operative retail trading was 86 p.c. of the total, and the remaining 14 p.c. was accounted for by private trader (8.9 p.c.) and peasants (5.1 p.c.). This means that in retail trading also the 1957 target has been greatly exceeded, and now private trade is hardly of any real consequence in China. The magnitude of the change can be better appreciated by taking into account the figures of units involved in the transfer of retail trade to public sector. It was estimated that in August 1955 there were .85 million commercial concerns and 2 million small trading stalls etc. with 4 million workers, 86 million restaurants and food shops with 1.35 million workers and .21 million service establishments (barbers etc.) with .5 million workers; in all there were 3.92 million trading units and 5.40 million workers. Most of the persons engaged in retail trade were either working individually or in small family businesses and accounted for a little less than half of the retail trade of the country. The transformation has taken various forms, and no attempt has been made to cast all these units in the same mould. About 15 p.c. of these concerns have been converted into state-private joint operative units and their owners are to receive 5 p.c. per annum on the assessed value of their investments, 25 p.c. have organised themselves into co-operatives of varying sizes and 60 p.c. are buying and selling for the state or co-operative undertakings either as employees or on commission basis. Retailing trade has necessarily to remain a decentralised business and cater to the needs of a widely diffused market. The fact, that 60 p.c. of the small traders, mobile ven-



dors, pedlars etc., have mostly taken the position of the authorised dealers working on commission basis, shows that this aspect of the matter is receiving its due attention. Further developments, it may be assumed, will take place in the light of experience and the pace will not be forced. Public trading has been a decisive factor in stabilizing wholesale and retail prices of both agricultural and industrial commodities and private merchants were progressively rendered powerless to speculate in goods, manipulate or disturb prices or practise hoarding in any form. Distribution of all goods, but particularly of food articles, has been well organized, shortage created by drought and floods—some of them, e.g., the Yangtsi floods of 1954, of unprecedented gravity—have been successfully met and uniform, stable and national price structure has been built up and maintained. Margins between the purchase and wholesale prices of the State Trading Organization have been rationalized and vary from 3 to 7 p.c.; and also the difference between the wholesale and retail prices, which vary from 10 to 18 p.c., have been regulated and the retail prices are practically fixed by the State Trading Organization. Higgling, which was, as is well known, such a conspicuous feature of trading in China, has been completely put an end to—even in trades in luxury goods or the commodities of minor importance—regulation of prices through trade guilds is being enforced and the commodities are being sold at fixed prices. The State Trading Corporation is paying fair wages to its employees and providing, as stated above, for labour insurance benefits and also for cultural and other amenities for them, but it is also realizing profits which, of course, are contributed to the state treasury.

Economic development of the country has increased production; but owing to the expansion in the purchasing power of the people, particularly of the peasants, the demand for the commodities of everyday use, finer food grains—rice and wheat—and for cloth and edible oil in particular has increased with a spurt since 1953, and it has been found necessary to introduce the system of monopoly procurement of wheat, rice, cotton and rationing of wheat flour, rice, cloth, edible oil, and since 1955 also millets. Increase in the purchasing

power of the poorest classes in rural and urban areas mean not only that they can buy more but also a shift in demand to the commodities of better quality, particularly in the case of food from the coarser to finer grains i.e. from millets, their staple food in the past, to wheat flour and rice, has taken place and the demand for oil and cloth has also gone up greatly, because pent up demand built up during the period of compulsory self-denial owing to the lack of purchasing power is now pressing upon the available supplies. The total supply of these commodities has increased, their consumption per head has also increased and even under rationing though their consumption has been checked, relatively speaking, the people are not in great want on that account.<sup>1</sup> Experience of rationing of these commodities for four years has indicated that the need for regulation and restriction of demand would remain for many years, and it would be necessary to maintain the system in the next period of construction and development. Considerable increase in production of these and other consumer goods has been provided for in the first and second five year plans, and it is fully realized that rationing has to be a temporary expedient and cannot be a normal feature of the economy. Production has ultimately to catch up with the increase in demand, but owing to heavy investment in the production of capital goods, the gap between supply and demand of these essential commodities can be narrowed but not completely bridged in the transition period. Planned purchase and supply of certain commodities, as the system of monopoly procurement and rationing, is actually called, is essential and unavoidable for the successful implementation of the plan and has to be accepted as a part thereof.

It does not mean, it may be repeated, that consumption

<sup>1</sup> Production of several items in 1957 will, as compared with 1952, increase very considerably. Planned targets of increase in production as compared with 1952 for the main items are: Grain 13.3 p.c., pork 57 p.c., edible vegetable oil 65.9 p.c., aquatic products 70.1 p.c., table salt 34.3 p.c., sugar 122.9 p.c., cotton piece goods 55.1 p.c., knit goods 105.3 p.c., rubber shoes 69.8 p.c., kerosene 143.5 p.c., machine-made paper 98.2 p.c., cigarettes 87 p.c. The targets of the Second Five Year Plan, as stated in the Chapter VII are very much higher and ought to ease the pressure of demand materially.

of rationed commodities has been reduced. As a matter of fact, the planned quotas in most case provide for a rise in the level of consumption and satisfy, though only partially, the pent up demand for the rationed commodities; but in the nature of things it is not possible to satisfy the demand fully and it is in the interest of the community that complete satisfaction of the demand be deferred for a while and the available resources utilised first for accelerating the production of capital goods and construction of public works needed for laying the foundations truly of a well-developed industrialised socialist economy. In a period of transition when in an undeveloped and backward economy planned heavy investment is being carried out and all economic, technical and human resources are being pressed into service for the purpose, public control of supply and distribution of the essential commodities, particularly food, is a necessary pre-requisite of the execution of the development programme.

Without it, it is unlikely that the available supply of these commodities would be utilized to the best advantage, their distribution would be even and fair and the minimum requirements of the people would be provided for. This is even more essential for a country like China which is mainly, though not entirely, relying upon its own resources for building up the new economy. It is pre-eminently desirable that the people should know that their self-denial is due to their having to forego immediate gains for paramount social ends and it is being, by and large, equally shared. It is, therefore, necessary that the need and object of the 'planned purchase and supply' be explained to the people and, as far as possible, their intelligent co-operation enlisted for putting the system into operation and ensuring its success. In a war or siege it is easy to explain to the people why they must go short, but it is much more difficult to do so when production is increasing, the peoples' earnings and therefore their purchasing power are expanding and they have just turned their back upon a period of prolonged deprivation and suffering. It is natural that with more money in their hands and in an atmosphere of strenuous effort to increase produc-

tion, they should expect some relaxation of restrictions on spending and show a disposition to enjoy the fruits of their labour. It is natural, but it is imperative that 'the propensity to consume' be held in check and fair distribution of the limited supply of the essential commodities be planned and carried out. Any country which does otherwise or shows lack of appreciation of this inescapable necessity, when it is straining its resources to the utmost to rise from abject poverty to social well-being on a widely diffused and equitable basis, would defeat its own ends and cannot but fail to achieve its object. In China since November 1953 actual experience brought home to the Government the need for 'planned purchase and supply' of rice and wheat flour and of extending the practice to cloth and edible oil in September 1954, and as stated above, it has been decided that monopoly procurement and rationing of these and millets and possibly some other commodities would have to be an integral part of the planned development of the country in the period of transition and have to be placed on a quasi-permanent basis when the country is investing heavily in 'slow-ripening' schemes of development. This decision has been taken, and all the resources of the Communist Party, all the organs of publicity and all mass organizations like the Youth League, the Federation of Co-operatives, the Democratic Federation of Women and the Trade Unions are being fully utilised to explain to the people *raison d'être* of the decision and the urgent need of carrying it out in letter and spirit and with full understanding of its importance.

For the success of the policy it is essential that effective monopoly, procurement without discrimination should be introduced. For cloth and edible oil procurement is simple; and as the State Trading Organization through various measures had already acquired in 1954 a dominant position in the marketing of most commodities manufactured by private enterprises, complete procurement of cotton, cloth and edible oil have raised no difficult problems. In regard to the procurement of rice, wheat and cotton also state trading had made great headway and by November 1953, 70 per cent of the marketable surplus of these commodities, through payment of land tax in kind, purchase through the trading co-operatives

and also direct operations was controlled by the State. Monopoly procurement of these commodities, which necessarily involve assessment and fixation of quotas of the peasants and their delivery on the due dates, however, created new problems; and the experience of the Soviet Union and all other countries in which delivery quotas of food grains have to be assessed, fixed and enforced clearly points to the need of developing a system in which the peasants can co-operate without being in any way dragooned and without suffering serious hardships

Information with regard to the methods in use for assessment and fixation of delivery quotas is incomplete, but it is reported that self-assessment through the producers' co-operatives, the mutual aid teams and the peasants organizations has been and is being largely resorted to for fixing quotas, and the use of coercive methods is being avoided. The terms of exchange between agricultural and manufactured commodities are also reported to have been changed to the advantage of the peasants i.e. the latter are getting higher prices for their products and have to pay lower prices for fertilizers, agricultural implements, water-wheels, cloth, kerosene, salt, flash lights, rubber shoes, thermos flasks and other articles of everyday use. For example in 1954 the prices of agricultural commodities were increased by 5 p. c and those of manufactured commodities reduced by 8 p.c to make exchange more favourable for the peasants and to create an incentive for delivering the quotas with as little demur as possible. In fixing the quotas family needs of the peasants, their requirements of seeds and cattle feed and a margin of surplus are allowed for and local markets are being organized to provide for direct exchange of agricultural commodities in the country-side. Monopoly procurement of food grains in any country in which the peasants are in overwhelming majority, calls for high level of administrative efficiency, great solicitude for the interest of the peasants and their full support and confidence if the system is to operate without creating serious irritation or resentment and to the manifest advantage of the community as a whole. Monopoly procurement of agricultural commodities may be unavoidable, but it obviously cannot be made a success if there is overt

or covert resistance to it on the part of the peasants. In China the present economy, having done so well by the peasant, can draw upon a large fund of their good will and count upon their co-operation in the execution of the programme of planned development; but all the same it is necessary to make monopoly procurement as painless as possible and rely mainly upon the enlightened self-interest of the peasants for ensuring its success.

It is also necessary that in fixing rationing norms legitimate needs of the people should be met as far as possible, and though ideal nutrition standard cannot be realised at present in China, it is evidently necessary that there should be no material reduction in the intake of food. It has been estimated that at the present rate of agricultural production 660 catties (one catty is equal to 11023 pounds) per capita are available, and though the ration quota is generally more than one catty per day of wheat flour or rice,<sup>1</sup> millets are available,<sup>2</sup> their prices are lower and can be used to supplement, if necessary, the ration allowance of the staple cereal. In the North rice is not rationed because it is not the staple food of the people, and similarly wheat flour is not rationed in the South as wheat has only a minor place in the diet of the people in this region. Millets, rice or wheat as the case may be are available for supplementing rationed quotas; and as their prices are reasonable, no serious handicap need arise because of rationing. The cloth quota is about 14 or 15 yards per head per year and is supplemented for special festive occasion like marriages or festivals. The oil quota is only 10 oz and in some cases less per head per month and animal fats have to be largely used. The cultivation of oil seeds were in 1954 below the pre-war

<sup>1</sup> On August 24, 1955 the rationing policy was again enunciated and it was announced that the rates would vary according to age, type of work and regional grain eating habits. In urban areas where flour is staple food the monthly ration is to be as follows: workers on heavy physical work, 44 catties, workers on light work, 35 catties; university and secondary students 35 catties office workers, teachers and shop assistants 31 catties and other residents in general 27.5 catties. For rice-eating regions the scale is about the same.

<sup>2</sup> Millets now represent a little less than half of the total cereal production of China and have always been important in the food budget of the people.

level and special efforts are being made to increase their production. The supply of pork, which is the staple meat of the Chinese people, has been raised considerably above the pre-war level and pig-breeding on a large scale is, as pointed out in Chapter VII, being promoted. Export of food grains, pork and eggs is permitted, but is reported to be below or only a little above the pre-war level.<sup>1</sup> The necessity for rationing food, in spite of increase in its production, is an indication, as stated above, not of physical shortages but of increase of the purchasing power of the people owing to accelerated rate of development. China, however, is short of important protective foods like milk, vegetable and fruits, and needs to make special efforts to provide balanced diet for her people. The present position is a distinct improvement upon the conditions prevailing in the past, and the people in general are better off than before, but careful vigilance would be needed to keep the strain of development within the limits of endurance, and mass supervision has to be increased not only for maintaining production but also for preventing under-consumption. It is unavoidable that error of policy and failures of administration should occur in some cases; and from the public discussions of the present situation it is clear that preventable local shortage and discontent even in rural areas have occurred. As the peasants still hold and would for a long time continue to hold the key to China's future, the importance of conserving and

<sup>1</sup> During the four years 1950-53 the annual average export of food grain was 1,525,800 tons as compared with the average of 1,131,800 in 1927-31. The output of grain in 1953 was estimated to be nearly 163 million tons as compared with 138 million tons in 1933-37. The average of export of oil for 1927-30 was 246,000 tons and for 1950-53 236,000 tons. The estimated number of pigs in 1953 was 93 millions as compared with 63 million in 1936 and nearly 6 p.c. of the increase is estimated to have been exported in 1950-53. China is mostly paying for the imports of capital goods needed for development by exports and has, therefore, to export commodities which she could well use at home. Line between permissible and impermissible export would have to be drawn in the light of the estimated production and the minimum consumption requirements, and the position would have to be continuously watched. With population increasing at the rate of 12 to 15 millions per year in China the adequacy of the supplies for the needs of the people cannot be taken for granted in spite of the planned increase in production.

preserving their good will cannot be over-estimated. Nearly 100 million of urban people and also about 100 million of rural population at least partially have however to buy their food in the market, it is a matter of real importance that the quota delivery system and the rationing system should be efficient in conception and operation.

Communications being the arteries of commerce necessarily limit its development; and the state of communications in China in 1949 was truly wretched and lack of transport a very important factor in creating the condition of paralysis which afflicted the Chinese economy at that time. This was due to the fact that during the war and civil war, as pointed out in Chapter II, dislocation and disruption of communications was a military necessity; and when the Kuomintang realized that the position was hopeless, its forces, in their retreat, deliberately damaged communications and blew up bridges as much as possible. Apart from the damage which communications suffered in the 12 years of war and civil war i.e. from 1937 to 1949, even before the outbreak of war China was very badly served in respect of communications and men were the most important beasts of burden for transport of men and commodities. The inland waterways have always been important in China, but they also served as avenues of foreign penetration and ships and gun boats, as is well known, were very effective for reducing China to a state of political subservience and also made her vulnerable from economic standpoint. Railways were mostly built by foreigners and with foreign loans—by the British, the Czarist Russia, the French, the Germans and the Belgians—and were primarily intended to carve out and consolidate foreign spheres of influence. After 1915 the extension or development of railways of any importance had taken place only in North East China in the interest of Japanese aggression; and the whole system of railways was never developed in an integrated manner or to promote the interest of economy as a whole. Railways were mostly confined to the coastal provinces or North-East and a number of very large and populous provinces were completely without railways. The road communications were also very poorly developed; and R. H. Tawney wrote in 1932 that "if China were to construct roads



continuously at the rate of 100,000 miles a year, she would possess at the end of 180 years, the same mileage as the United Kingdom (in 1930.)<sup>1</sup> In 1929 China had 34,000 miles of motor roads and 9,5000 miles of railways; and in later years both rail and road communications were, as stated above, subjected to the exigencies of the military strategy of the rival forces and were in 1949 in a derelict state. In 1950 about 6000 miles of railway track, after repair was made usable, their rehabilitation and extension was seriously undertaken and the building up of communications in general was given a high priority in the plans of economic reconstruction and development.

Development of railways since 1949 has involved (a) construction of new lines and (b) relaying and double tracking of old lines. New lines have almost entirely been constructed in the areas which had practically been completely neglected in the past and had great potential resources. Five important railway lines have been constructed or are under construction, and the most important among them is the line from Lanchow in Kansu to Yumen and Urmuch; in Sinkiang and Alma Ata in Kazikistan. This line is being constructed with great speed and already very considerable progress has been made. Soviet aid is being made freely available for its construction and in Kazikistan the Soviet Union itself will construct the line. Besides giving an important line of communications between Soviet Union and China, it would greatly, quicken the pace of development in Sinkiang, create basis of industrial production in this vast area and connect the oilfield of Yumen with the important industrial centres. The other important line under construction is the line from Chining to Erehline, and Ulan Bator in Inner Mongolia which is already connected at Ulan Udech with the Trans-Siberian Railway line from Vladivostock through Manchuria to Moscow. Line up to Erehline has already been completed, and when it reaches Ulan Bator, it will open Inner Mongolia to railway traffic from the South, and the third line from Lanchow to Paoto would connect it via Chining also to North West. The fourth line from Lanchow to Chungli in Schzuan via Paochi would

<sup>1</sup>R. H. Tawney *op. cit.*, p. 87.

connect North West with South West and make it possible to go to Peking by rail from Chungking from where a line has already been constructed up to Chingtu. The fifth line will run from Lanchow to Kuming in Yunan in the South which will enable a through service to be run to Hanoi in Vietnam. The main point of these developments is that, besides leading to political integration of the country, they would open up vast undeveloped but potentially rich hinterland of China and make it possible to bring about even and balanced development of the entire economy. The railway development is for the first time being conceived and proceeded with on a unified basis and is, of course, directly related to the plan of the development of the national economy. By relaying and doubling the track on the main trunk lines the carrying capacity of China's railways will be increased by 75 p.c. in 1957 as compared with 1952. It is estimated that by 1957 the railway goods traffic will reach 121,000 million ton kilometer or double the 1952 figure and the passenger traffic 32,000 million passenger kilometer or about 60 p.c. above the 1952 level. Now about 18 to 19 thousand miles of railway lines are being operated and since 1950 nearly 2500 miles of new railway lines have been constructed. Under the Second Five Year Plan provision is being made for 5,500 to 6,000 miles of railway.

Construction and extension of railways are, however, not the only aspects of their development which has had to be considered. Re-organization of railway administration, revision of fare and freight schedule, retraining and expansion of staff, development of technique, production of locomotives, coaches and wagons, provision of better amenities for the passengers and regulation of traffic and increase of carrying capacity to reduce over-crowding—these and other matters relevant to the place of railways in the new economy had to be attended to and decisions taken with regard to them with a view to promoting efficiency and using them to realize new social ends. As a result of these decisions changes have been made which give them a place of their own in the working of the new economy. Administration has been unified, operations of different sections and territorial units co-ordinated and planning technique embodied in the new organization. Freights and fares

have been revised and increasingly rationalized. Freight schedules are purposely being used not to maximize revenues but to serve the ends of economic policy. Unnecessary cross transportation of goods is being avoided and zonal rates have been developed which are intended to achieve this object. The rates, therefore, as a rule increase rather than decrease with the length of haul and long distance transport of goods is permitted only when it is necessary in the interest of economy and on the average the rates have been reduced and are about one third of what they were in 1937. That, of course, means that railways are keeping the need of rationalization of commerce itself in view and adjusting the rate structure to it. The staff has been retrained to perform their duties from the new social angle, meritorious workers are being given opportunities to rise to higher posts and acquire the necessary qualifications in short term schools and higher institutes. The railwaymen's trade unions are, besides looking after the interests of the members, participating in the administration of railways, providing educational and cultural activities for the members, administering labour insurance regulations and establishing holiday resorts, sanatoria and convalescent homes for them. Every effort is being made to promote self-sufficiency in regard to the production of rolling stock, locomotives and all other equipment needed for constructing and maintaining railways, and very considerable success has been achieved in this respect. Passengers are being treated with courtesy and consideration, mothers and children are receiving special attention and the staff is being trained to cultivate personal contact with the passengers. Most trains and stations have small libraries and through loud speakers and otherwise the fact that the railway travel provides an opportunity for mass contact is being utilised to explain policies, to educate the passenger in new behaviour and to create an awareness of the new purpose in the economy. Financial position of the railways has been greatly improved through careful budgetting, cost accounting, honest and efficient administration and the reduction of costs through emulation and co-operation of the employees, and railways are now bringing handsome surplus to the treasury. All this implies that the re-organization of

the railways has been carried out with understanding of its changed role in the economy. The bad legacy of the past has not been worked off as yet, but the railways are not only now great national asset, but also participating fully in social transformation.

The road construction has also been taken in hand with great earnestness. In 1949 about two-thirds of the roads in the country were badly damaged by the troops in retreat, but in a year the necessary repairs were carried out and in 1950 about 75,000 kilometres of roads were to open to traffic. In 1951 their length increased to 107,400 kilometres, in 1952 to 120,000, in 1953 over 125,000 and in 1954 it was about 150,000 kilometres. Under the Second Five Year Plan provision has been made for the construction of 15,000 to 18,000 kilometres of new roads. In the construction and even maintenance of roads co-operation of the people is being utilised to the full, but some of the most important highways e.g. in Tibet and Lanchow Tihua highway have been constructed by using fully bull dozers and other modern mechanical aids for road construction. These highways have been constructed mostly in isolated and backward areas, have involved great engineering and organizing feats and accounts of their construction are full of episodes of great personal heroism and indomitable courage in face of stupendous difficulties. The two roads to Lhasa were constructed after a great deal of preparatory work but were completed in record time and the changes that have already occurred in this area indicate the possibilities which have been opened by them. These highways serve both political and economic purposes, but the areas in which they have been constructed had in the past suffered from isolation and exploitation and their large mineral wealth could not be possibly developed. Traffic, since these highways were opened, has greatly increased, places like Lanchow have acquired new importance as distributing centres; and owing to free inter-flow of goods and clear policy of the State Trading Organization, prices of goods have been equalized and changed to the benefit of the inhabitants in these areas.

Road communications have even greater importance than railways for the development of China and the fact is fully

appreciated by the Government. As a matter of fact integration of the schemes of development of all communications is essential, and is in practice being realized by planned unified development of railways, roads, inland waterways, coastal shipping and airways.<sup>1</sup> Coastwise shipping routes total 4,000 nautical miles, the length of inland water routes is 35,340 miles and is being constantly increased. 20 good harbours along the coast have been rehabilitated and their capacity expanded. The new harbour Tangku, near Tienstin, is near completion and will be able to take in big sea-going ships. As stated already, inland waterways have been always important in China and their importance will greatly increase after the completion of the river valley projects. Coastal shipping is also being developed and both inland and coastal shipping have been largely nationalized or made jointly operated undertakings. Communications, as arteries of the national economy, are now getting very careful attention in the development plans, and though it would take time to make full amends for the past, there is no question that the function, which has of necessity to be assigned to them in the development of the economy, rules out the possibility of their being given less than due share in the allocation of resources and the development of the economy.

Foreign trade of China has in the last six years undergone

<sup>1</sup> Growth of the various means of communications is indicated by the planned growth of traffic in 1952-57. Figures for railway traffic have already been quoted. For the other forms of traffic they are as follows: Freight handled by inland shipping in 1957 will reach 15,300 million ton kilometres, 4.2 times that of 1952, passenger transport will reach 3,400 million passenger kilometres, 78.7 p.c. rise over 1952. Freight handled by coastwise shipping will reach 5,750 million ton nautical miles or 2.9 times the 1952 figure. Passenger transport handled by coastwise shipping will be 240 million nautical miles, a rise of 140 p.c. Motor lorry goods traffic will reach 3,200 ton kilometres or 4.7 times as much as in 1952; motor bus passenger traffic will reach 5,700 million passenger kilometres nearly treble the 1952 figure. Goods carried by civil air lines will reach 8 million ton kilometres or 3.3 times as much as in 1952. At present there is hardly any passenger traffic by air. It is clear that the railways are still the most important carriers both in respect of goods and passenger traffic and likely to maintain their lead, but probably a really integrated plan would in due course improve the relative position of the other means of communications.

even a more radical change than her internal trade. It has been more completely nationalized than internal trade in the sense that foreign control, which was far more extensive in foreign than in internal trade, has been eliminated altogether, private enterprise now matters even less in foreign than in internal trade and its composition, direction and organization have been basically altered. The chapter of Chinese history, which opened in 1812 with opium being forced upon the people and ignominious surrender by the Chinese Government, was definitely and finally closed in 1949. It is well known that through various unequal treaties, ceding of the treaty ports, foreign settlement, restrictions on traffic autonomy, administration of customs, and inclusion in its scope of matters like river conservancy, coastal petrol by armed vessels, administration of harbours, disposal of customs revenues, procuring of loans from foreigners and the payment of indemnities, Chinese 'sovereignty', for the preservation of which international insincerity was displayed to the full, became a mere shadow and not only political independence of China but also her economy was undermined and distorted. The developments, which have taken place in foreign trade of China since 1949, are even more significant from the standpoint of restoring to China integrity of her economic life and, of course, real sovereignty from the commercial standpoint. Foreign trade of China having been used in the past as the most effective channel of foreign penetration, its very basis has been altered by China having fully regained her national independence and put an end to her economic subservience. Foreign trade is now an instrument of national policy and is being used to strengthen and develop the real interests of her people.

The other important change in foreign trade is that it is almost completely a public enterprise. Number of foreign enterprises trading in China in 1949 is reported to have been 485 and in 1954, 98; but foreign firms are now practically doing no business. This is due partly to the state having stepped into this field and change in the direction and composition of China's international trade, but embargo on trade with China imposed by the United States and maintained against the free will and interests of Western countries and Japan has also

in no small measure contributed to this result. Firms like Jardine Matheson and banks like Shanghai and Hong Kong Bank and the Chartered Bank of Australia, which played such an important, and from the point of view of the Chinese people, devastating role in the century of Western domination of China, are still maintaining their offices in this country, but they are in no way participating in her international trade and their business now lies in other parts of Asia. Private Chinese merchants who in the past were mostly compradors or agents of foreign commercial policy, have not disappeared altogether, but are occupying a very secondary place in China's international trade. Two hundred Chinese private firms are still in this business, but they only account for 10 p.c. of their country's trade with foreign countries and practically function as agents of the State Trading Organization in the countries in which they have useful contacts.

Nine-tenths of international trade of China is at present in the hands of the State Trading Organization and it has shown itself capable of expanding trade, building it up to hasten and develop the social transformation now in progress and working in conformity with the plans of economic development in the country. There are five Import and eight Export Corporations. Among the Import Corporations there is one which specializes in the import of complete plants for production of specific commodities. There is also an Import and Export Corporation which deals with the problems of bilateral trade on barter basis. These corporations are not only specializing in the import and export of particular commodities, but are also dealing with the problems of special regions or countries. They are all working under the direction of the Foreign Trade Ministry which has special sections for dealing with commodities, geographical divisions, commodity testing and inspection, transport and personnel. It has also a Finance and Account Division, Audit Division and Planning Division. This Ministry has necessarily to plan in consultation with the Commerce Ministry in regard to the consumption requirements of the country and with the various Ministries of Industries to meet the needs of development and construction. Private merchants carry on business according to the

plan and the import merchants sell mostly to the State Trading Corporations, though selling on private account is not prohibited. At each important port, provincial capital and in the more important cities there are Foreign Trade Bureaus. There are about 5,000 cadres in the central organization and about 45,000 employees of the Trading Corporations and Foreign Trade Bureaus. Their scales of salaries are the same as in the other Trading Corporations and Government Departments. The employees have trade unions, their political education is, as in other organizations, receiving special attention and they are entitled to the benefits of labour insurance, holiday resorts and sanatoria. The supervisory staff is being trained in a special Institute at Peking in which four years course of training is provided in Economics of Foreign Trade and Foreign Languages and, it need not be added, Marxism and Leninism is an essential part of this course. In 1954 over 600 students were under training in this Institute.

Change in the direction and composition of China's international trade fully reflects the changes in her international position and relations and in her national economy. Before the war the U.S.A. and Japan had been growing in importance and Great Britain and Hong Kong had been losing ground, though they continued to be important both in regard to imports and exports. China mostly exported agricultural products and primary goods, beans, bean oil, tea, tung oil, bristles, eggs, raw silk, embroidered cloth, artware, coal and other minerals like asbestos, cobalt, walforn, antimony, tin and iron-ore. Her imports mostly consisted of food, raw materials and manufactured consumption goods. Import of machinery hardly mattered in China's pre-war international trade. China has since 1949 been importing from the Soviet Union machine tools, mining transport and building machinery; metals and steel products; telegraphic and electric equipment; precision instruments and medical supplies; petroleum and chemicals; sugar and in 1954, 97 p.c. of her imports consisted of capital goods. These include complete industrial installations, which are of growing importance in the Sino-Soviet Trade. The Eastern European countries have been exporting to China machine tools, power generators, oil drilling equipment, cranes, tractors,



building machinery, vehicles, petroleum; metal and steel products, chemicals, precision instruments and pharmaceuticals. In 1955 the proportion of capital goods in the imports from these countries and the Soviet Union was 93 p.c. The corresponding figures for 1930 is 3.4 p.c. and 2.9 p.c. in 1946.

Information in regard to international trade is at present being made available only to indicate the proportionate growth since 1949; and in value and quality of different commodities of import and export and of the distribution of trade to and from different countries are not available. It is reported that 80 p.c. of her foreign trade in 1954 was with Soviet Union and the countries of Eastern Europe 'the fraternal countries' and 20 p.c. with the other countries; and 87 p.c. of her imports consist of machinery, chemicals and industrial raw materials and 13 p.c. of consumers' goods. China is self-sufficient in regard to food and raw cotton; and though she is still mostly exporting primary products and minerals referred to above, but the export of manufactured goods is increasing and even machines are being exported on a small scale<sup>1</sup> When unrestricted publication of foreign trade, as other, statistics becomes possible, it would be possible to analyse the trends in detail; but from all accounts it is clear that trade of China is expanding, she is mostly trading with Soviet Union and the Associated Countries and is concentrating on importing capital goods for building up her industries. She is keen to expand her trade with the other countries also

<sup>1</sup> This point may be illustrated by citing the case of the Trade Agreement with Egypt.

In Schedule A of the Sino-Egyptian Trade Agreement signed in October 1955 exports from China to Egypt are listed and in Schedule B exports from Egypt to China. Egypt under the Agreement is to export raw cotton and calcium superphosphates, while Chinese exports are listed under 12 heads among whom are - steel materials, machinery, building materials, chemicals and minerals. Under 'steel materials' are various kinds of bars and construction steel; under 'machinery' metal cutting machines, metal boring machines, lathes, melting machines, pneumatic hammers, pressing, punching and shearing machines, construction machines like cranes, cement mixing machines and power generating machines, complete textile, paper sugar and flour mills and tele-communication apparatus of various kinds; under building materials glass, refractory materials, asbestos cement boards; under 'chemicals' soda ash, caustic soda, copper sul-

on a non-discriminatory basis and a number of countries, including Great Britain, France, Netherlands, Sweden, Finland, Switzerland, Italy, Argentina, India, Ceylon, Burma, Indonesia and Japan, have entered into trade agreements with her. With the increasing purchasing power of her people and rapid rate of planned development Chinese market cannot but be of great importance from the point of view of world trade. For Japan its importance is known to be crucial, for economic solvency of Japan and her autonomy in international relations would largely be determined by establishing and developing sound and expansive trade relations with China. It is fairly evident that this point is very widely and vividly appreciated in Japan, and left to themselves her people, knowing as they do, that commercial co-operation with China is vital for their economic recovery, would not only normalize that trade re-

phate and bleaching powder; and under 'minerals' alum, antimony, and gypsum. The old traditional exports of China are included under the other heads and among them are soya beans, wool, skins, tea, porcelain, handicraft products, raw silk and silk goods but they also include the items like canned goods, enamel wares, thermos flask, sewing machines and domestic electric appliances. The capacity of China to export varieties of producers' goods is limited and also of exports of complicated consumers' goods; and most of the exports to Egypt, as to the other countries, are likely to consist of the staple goods which China has been exporting in the past; but the list of exports in the Trade Agreement is an indication of the diversified industrialization of her economy and also her potential importance in world trade when she attains full industrial development.

The Trade Agreement for the first year provides for the purchase of goods worth £10 millions by each country from the other, i.e. the balance of bilateral payment is definitely aimed at, though there is a provision in the Agreement under which the country which imports more than it exports, has to meet the deficit by payment in acceptable currency or through triangular or even multilateral transactions. This is an illustration of how China is mostly trading on the basis of bilateral balance of payment i.e. equalization of value of her imports from each country with the value of her exports to it. This bilateralism is for her a practical necessity and would probably be replaced by multilateralism, i.e. balance of payments in the trading account as a whole and offsetting of surplus and deficit with various countries by taking all international transactions together. Improvement in her international position and removal of the existing barriers and restrictions would naturally lead to this development.

lation with her neighbour but assign to it a very special place, in their schemes of the future. The Soviet Union and the Eastern European countries, with whom her trade relations have grown so rapidly and beneficially, would, it may be assumed, continue to occupy a position of great importance in the structure of China's international trade. Their present close trade relations, for obvious reasons, most likely will be maintained; but it is in the interest of all countries, including China, that she should develop multilateral trade with them, and should not put any hindrances in the way of this expansion if world situation favours this growth. At present she is known to be trading with fifty countries and the volume of trade has rapidly increased, but trade with most of them is capable of great expansion and trade with more countries can be started and developed. That China can, and most likely, will be a very important factor in world trade really does not need to be stressed. It is inherent in the facts of the situation and needs to be objectively understood.

China had a deficit balance in her international account for nearly seventy years; and the value of her imports exceeded that of exports by a large margin. Though her balance of payment figures are not available, her trade account is reported to have been balanced since 1950, and in spite of her expanding imports necessitated by her rapid economic development, she has been able to pay for them by increasing exports. It is not known to what extent her trade account is balanced with each country, but bilateral balance with all countries is taken to be the general maxim of trade policy and she, apart from short-term adjusting credit, for which provision is made in her trade agreements is, it is stated, neither receiving nor extending credit in the settlement of international account. She is using the rouble as currency of account with the Soviet Union and her associates and probably some informal clearing arrangements are also being developed. With the other countries she settles her trade account by making or receiving payment in sterling, Swiss francs, Indian rupees and national currencies of other countries. The State Banks of China, Soviet Union and her associates settle international account among themselves; as it is all state trading, foreign

exchange account does not present difficulties. With the other countries the accounts are settled, according to the terms of the Payment Agreement, which, as a rule, are incorporated in the Trade Agreements; and the Bank of China, whose position and functions are briefly explained in Chapter XII, operates as a Foreign Exchange Bank for China and settles her trade accounts. Private merchants have to surrender their foreign exchange earnings to the Bank of China, and are given the foreign currencies that they require through it up to the limit of the value of their approved transactions. Exchange control in China is completely centralized, and there is no scope for illicit exchange transactions.

Planned foreign trade of China, mostly with countries with planned economies, introduces an element of stability in international commerce which is of great advantage in working and developing of her national economy. Fluctuations of prices and changes in the terms of trade do not occur in her trade relations with the countries which have planned socialist economies, and they provide practically guaranteed markets for exports and also guaranteed supply of imports at stipulated prices. Trade can be planned ahead on an assured basis, and though trade agreements are made for a year, the valid presumption is that their underlying assumptions would hold good over many years. The risk of the contraction of the trade owing to shrinkage of market is thereby largely reduced; and if the terms of exchange are mutually satisfactory and hard bargains are neither driven nor accepted, trade becomes a measure of real mutual aid and is based upon differences of relative real costs. In a socialist economy labour being the source and measure of value, if labour gets a square deal and the terms of exchange are fair, real costs and advantages acquire importance, which in private trade determined purely by the considerations of profit, are neither clearly evaluated nor embodied in trade transactions. This principle of international values can be made operative only in trade between socialist planned economies and the countries which purposely base their trade policies on the basis of reciprocal advantages. It would be too much to assume that this prin-

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ciple is being fully observed in her trade with the Soviet Union and the other socialist countries which accounts for, as stated above, more than two-thirds of her international trade. Even if the implications of the new situation are fully understood, longer experience would be needed for the clarification of the new principle through practice and its complete application. The conditions, economic and political, are, however, favourable for the application of this principle, and with experience and increasing mutual confidence, it may be assumed that its advantage would be more fully realized. In China's trade with the countries whose foreign trade is mostly private enterprise, China can, through state-trading, proper study of market conditions and better bargaining power, reduce but not eliminate the uncertainty and risk of trade and price fluctuations, but as her trade grows and her economy gains in strength and efficiency, she would not only improve her relative position but also probably build in safeguards against instability of trade and its terms with the countries with unplanned economies. Foreign trade in China, owing to her avowed policy of developing a socialist economy as fast as possible increases the stability for the economy and places her in a position to co-operate with other countries on the basis of equality and mutual benefit. The objects and strategy of her foreign trade become different on that account, and from her point of view and that of relations with other countries, it makes a real difference of kind and its possibilities need to be clearly appreciated.

Planned foreign trade also assists in stabilizing domestic prices. Export and Import Corporations cover their expenditure and charge commission for their services and realize profits for the state. As a rule they buy for export through Foreign Trade Ministry from the Commerce Ministry which, of course, places orders with the State Trade Corporations and sells the imports to the Commerce Ministry through the Foreign Trade Ministry, and the commodities are actually distributed by the Depots and Department Stores to the trading co-operatives or industrial firms, state organizations and private traders. Prices in both cases are a matter of negotiation and settlement between the two ministries; and as a

rule the prices include purchase price, transportation costs and the commissions which vary from 3 to 7 p.c. charged by the corporations for their services. It is, however, possible to vary prices of individual commodities according to wider social considerations and in case of imports provide a cushion against the impact of particular prices in foreign countries which may, if charged on the basis of purchase prices, be unduly high and disturb the internal price structure. In other words, some prices can be raised and others lowered either because exigencies of foreign trade require these variations or in the interest of stability of internal prices, it is necessary to spread the burden of a high-cost imports over larger number of imports and a comparative equalization of prices achieved. Moreover, overhead costs of the trading corporation can, by varying the commission rates, be distributed in order to rationalize the price structure and make it fair from the point of view of the community. This sounds more complicated than it is; for it is in effect the application of the principle, which every large commercial firm dealing in a number of commodities, applies to its sale prices by selling most of the commodities above the specific cost of each commodity or its prime cost, some at prime cost and a few even below prime cost without running into loss on business as a whole or rather without lowering the normal rate of profits. The difference, of course, is that the State Trading Corporations aim not only at realizing planned profits for the state but also owing to the large field in which they operate and of great variety of commodities, which makes much greater flexibility of price policy possible, the principle of equalization can be applied with greater success and, of course, with the important difference that the prices are varied, not in the interest of business, but in order to realize some prime consideration of public good. Application of this principle to foreign trade implies that domestic prices can be, even in the case of commodities purchased in un-planned economies, shielded against the disturbing effects of foreign markets and the national economy insulated from the instability of the other economies. It also implies that among the exports each commodity in international accounts is not and cannot be treated as a self-contained unit whose price



has to cover its cost and which must be charged a standard rate of profits. Foreign trade, as a whole, must pay its own way, and if, it is so desired, bring in net return, i.e. planned profits, for the state; but this object can be achieved and yet in practice a great deal of freedom can be exercised in negotiating trade agreements and drawing up the price schedules of the export corporations. Price policy based upon this principle can be adjusted to the needs of the planned development, exigencies of foreign trade and wider considerations of social policy. Market prices and specific costs of the trading corporations can diverge, within certain limits, without creating real contradiction in price policy. This principle is being acted upon, and is producing good results.

Foreign Trade Ministry has still got its Customs Division, and at each port custom duties are being assessed and account of custom revenue is being maintained. There are maximum and minimum rates of custom duties, the minimum rates are charged on commodities imported from or exported to the countries with which China has trade agreements and maximum rates on trade with the other countries. These duties are included in export and import prices charged by the Import and Export Trading Corporations, but the customs revenue is credited separately to the account of the treasury. Rates of the duties vary widely and the essential commodities are assessed at lower rates. It is not easy to understand why the customs account is being maintained separately when the state possesses a virtual monopoly of foreign trade and can charge easily the prices inclusive of custom duties which it charges at present without assessing the duties and crediting their receipts to a separate account. If these duties were abolished, the only difference it would make is that there would be no customs revenue in the state budget and profits of the state-owned enterprises would be increased by the amount which otherwise would have been credited to customs, public accounts would be simplified and man-power, now needed in the Customs Division of the Foreign Trade Ministry, would be saved. Old habits die hard; and even in a revolutionary state it has been found necessary to adhere to a budgetting practice which has lost its meaning owing to the 'face of China' having been com-

pletely changed. It may be taken as a legacy of the times which China was denied tariff autonomy. Tariffs on that account have become a symbol of sovereignty and survived all the changes that have occurred.

This vast commercial organization, which has been created in the last seven years and is, as stated above, of fundamental importance for the new economy, is still in its formative stage. Its purpose is clear and the object which it has to serve is not at all in doubt; but it is still in the making and its technique, its personnel and its policy are all being developed on an empirical basis. The men who are at the top of this organization are mostly revolutionaries and members of the communist party. Some of them had experience of public trading in the 'old liberated areas,' a few of them are even 'long-march' men, others have been assigned these duties because they had special flair for public business, organizing capacity and revolutionary faith. All of them are learning by doing and also by attending the extension classes, the short term courses and, in some cases, by going through more extensive studies. They know their limitations, but they also know that they can do the job if their minds remain alert and faith unsullied. They have given a good account of themselves, but yet have to go a long way before they realize the full possibilities of state trading in all its aspects in a socialist economy.

## CHAPTER XI

# ECONOMIC DEVELOPMENT IN THE BACKWARD AREAS

EVERY UNDERDEVELOPED economy has its backward areas. In China in more than half the area live what are called "National Minorities"—distinct ethnic and cultural groups who, in the past, have suffered from severe discrimination and repression and now are at different stages of development. Most of them are farmers but there are also herdsmen, hunters and other people among them whose progress, for various reasons, has been arrested and who, would need, in order to rise above the present level, really fraternal assistance of the more advanced sections of the country. The policy on which the new economy is being developed, accords to these people a position of complete equality, regional autonomy and protection of their language, culture and customs. These rights have been guaranteed to them under the constitution and are being respected in practice. This policy is being administered on the assumption that, though these communities are in a state of retarded development, potentially they are as good as the Hans, i.e. the Chinese people who are 94 p.c. of the total population still and given the opportunities, they too would do as well as the others and take their place in the 'multi-national' state with equal credit and distinction. In other words, inherent inferiority of these minorities is denied altogether in theory and, as stated above, equality of opportunity for and special assistance to them are the basis of public policy towards them. The Constitution provides that 'in the course of economic and cultural development, the state will concern itself with the needs of the different nationalities, and in the matter of socialist transformation, pay full attention to the special characteristics in the development of each.' This implies that each community has to grow in its own way and its special needs, patterns of behaviour and the distinctive qualities are to be given full

consideration. The goal of development for them is the same as for the Hans—the majority community, i.e. all have to march towards socialism, but the manner and pace of advance are to be determined by the collective urge and experience of each community, and no attempt is to be made to force the pace or to provide a common mould for their growth. It really amounts to the adoption of the Soviet policy of making the development of these minorities 'national in form and socialist in content.' There is no intention to assign to them a different or less advanced position in the development of the economy. All parts of the country, including the areas in which the minorities live, are to be industrialized, modern technique is to be fully applied in agriculture, animal husbandry, irrigation and afforestation in all these areas and their mineral wealth are to be fully exploited and trade mainly conducted by the State Trading Organizations. There are no trusteeship territories in China—the territories the inhabitants of which are to be given the right to govern themselves by stages and whose economies are to retain their archaic characters until they can assimilate modern methods of production. As stated below these areas are in fact being very rapidly transformed and modern technique is being developed and applied therein without any attempt to slow down its rate of introduction. What is, however, definitely been borne in mind is that the interests of these minorities should in practice be actually considered paramount and they should be given facilities to train themselves for the managerial positions in the new economy. As it is assumed that they are capable of being trained for the highest positions, it is confidently expected that the qualified men and women of these communities would be able to hold their own among others, manage modern industries and use advanced farming technique without sacrificing or lowering the standard of efficiency. Their policy has an *element of faith* in it; but the Marxian theory and the Soviet experience are drawn upon to fortify it and the results achieved so far do not in any way impair the validity of the underlying assumptions of this policy.

The population of these communities or national minorities is about 35 millions or little less than 6 per cent of the total

population of 600 million or they live in territories which, taken together, are, as stated above, about one-half of the total area of China. The position is still being examined from the point of view of recognition of these communities as separate ethnic and cultural and linguistic groups, but 44 of national minorities have been recognized separately and are represented at local government level, i.e. they enjoy self-government in local affairs, members of these communities hold leading positions in these areas, administer local finances, develop their own cultures and participate in socialist transformation in ways suited to their local conditions. All of them are not sufficiently numerous or important to be represented in the National Peoples' Congress but 29 of them are, and they occupy 14 per cent of seats or more than twice their proportion in the total population. Ten of them have more than a million people, the Chuangs in the Kwangsi Province in the south, Uighurs in Sinkiang, the Huns who are scattered all over the country, the Yis of the South West, the Tibetans, the Manchus, the Miaos in the North-East, the Mongolians, the Puns in the South-West and the Koreans in the North-East. Twenty-one millions out of 35 millions live in the South and the rest in the North. The Uighurs in Sinkiang, the Mongols in Inner Mongolia and the Tibetans in Tibet and the adjoining provinces live in the areas which have been their historic homelands; but most of the other minorities live in remote, inaccessible and, relatively speaking, inhospitable regions to which they were driven by the Hans as they extended their sway and established their dominance. The Peoples' Government are keenly aware of the wrongs done to these people, are anxious that they should be redressed as fast as possible, and are doing their best to awaken the Hans and these communities to the need of turning their back upon the past and working hand in hand for a very different and very much better future. The Marxian creed is their inspiration for this great adventure; but immense educational effort is needed and is being put forth to build up this 'multi-national family'. The past has to be lived down, the old prejudices have to be rooted out and the habits, the attitudes and the ways of life needed for living together in a socialist society have to be acquired with care

and assiduity. The accomplishment of this task must necessarily take time, but it is clear that discrimination has no place in the policy of the new state and the national minorities are regarded as good material for enriching the socialist economy spiritually, even more than materially, owing to their ability to contribute their distinctive qualities and experience to the development of economic resources and the new social ethos of the nation. Revival of their music, folk art and development of their language are an essential part of the technique of building up the socialist society based upon equality, supremacy of the interest of the community and understanding of basic need for utilizing to the utmost all available human resources.

The first and immediate measure which had to be adopted was that commercial exploitation of these people had to be put an end to and their isolation reduced as much as possible by constructing roads and railways. Exchange of goods between these areas and the rest of the country on fair terms, with pronounced bias in favour of these minorities, has been fostered and rapidly developed; and now the State Trading Organization and the Marketing and Supply Co-operatives have contributed very largely to the development of commerce in these areas. It is estimated that these areas are, mainly because of large grants from the centre, importing more than they are exporting. In 1955, for example, the value of their imports was estimated at 600 million yuans and their exports at about 500 million yuans. What is, however, more significant is that the terms of exchange, as stated before, between these areas and the rest of the country have been greatly altered to the advantage of the former and now these communities get much more in kind than before in return for the commodities which they produce and make available for export. A few cases of these favourable terms have already been cited, but some more may be given to illustrate the changes which have occurred. In the Miao area of Kweichow the rate of exchange between salt and rice has been changed from 1 to 50 to 10 to 50; in Chinghai, of wool from 2½ bricks of tea for 100 catties of wool to 34 bricks for the same quantity, in the same area wheat used to be exchanged at the rate of 140 pounds

of wheat for 100 lb of wool and the rate in 1953 was 640 pounds of wheat for the same quantity of wool. These are typical illustrations of the changes in the terms of trade and indicate the purposive commercial trend of the State Trading Organization, which definitely aims at the termination of commercial exploitation of these people to which they were subjected owing to their isolation, ignorance and inability to meet the private merchants on equal terms. Now private trade has not been stopped, but is a factor of diminishing importance and the State Trading Organization is mostly responsible for the exchange and transport of goods traded between the majority community and these minorities. More than 2,500 State Trading Units are reported to be operating in these regions and include a large number of mobile teams who travel to and trade with remote and comparatively inaccessible regions and create and develop opportunities of fair and beneficial exchange of goods. In 1953 the number of employees of these commercial corporations was 25,000 and now is much larger. They are not agents of the age-old huckstering propensity of man particularly in relation to hapless and defenceless communities, but the architects of the new social economy and are doing business in that spirit. They have not only to create confidence among the minorities and make them realize that they can count upon receiving a square deal in the new order, but they have also, through their new code and otherwise, to transmit to them the awareness of new basis of commerce and its social implications. This important task can be discharged more by example than by precept; but the diffusion of its social theory is also an essential part of this task and understanding of the latter is being promoted as far as possible.

It was stated in the last chapter that the development of communications in these regions has been given high priority in construction of railways and highways for opening up the hinterland and mitigating the isolation of these peoples. The railways from Chining to Ulan Bator, from Lanchow through Yumen and Urmachi to Alma Ata and also to Kuming from Paochi to Chingli are all needed for the industrialization of the country and its integration, but they will also serve the

important purpose of bringing the many isolated minorities into the mainstream of the national life and reduce the disadvantage of mental and spiritual inbreeding due to their having had no contacts with other peoples. Same consideration applies to the new roads which have been constructed in these areas. Besides the three trunk roads, two in Tibet and the third in Kansu, over 12,500 miles of roads have been constructed in these areas and they are being extended. The highways and the feeder roads would promote commerce, make fertilizers and agricultural implements and better seeds available for farming by these communities, bring them food grains, cloth, salt, tea and all other articles of everyday use, and provide outlet for timber, wool, meat, medicinal herbs and handicraft products, livestock and many other varieties of goods produced by these minorities. These, besides being commercial arteries, will also be the transmission lines for new social values and make it possible for these people to reach out for wider contacts and cross fertilization of cultures and new social mores. Assuming that integrity of their life will not be upset in spite of all these changes, the communications would open for them new vistas from all points of view and show how their stagnation in the past had nothing to do with the limitations inherent in them. The changes in their economic life would be most striking and significant, but they would pave the way for more far-reaching social changes or rather as a matter of fact the former would be an essential part of the latter. Communications are vital for these areas and will have decisive importance for their development and transformation.

Seven eighths of the population of these minorities lives on farming; and therefore the development of agriculture is of supreme importance to them and has in fact received its due attention. Land Reform in these areas has been proceeded with very cautiously and was preceded by more careful preparation, and, it is reported, with greater regard for the feelings and reactions of the peoples concerned. It has, however, been carried out among five-seventh of the population of these minorities, i.e. among 25 out of 35 million of their total population. The landlords or landed magnates exercised even greater power over these communities than in the other areas, exacted



more from the unfortunate tillers and otherwise used their power more oppressively. The agricultural toilers in most of these areas were in a state of virtual servitude, and for them their having acquired proprietary rights over the lands which they tilled meant therefore liberation even in a true sense of the word. Reliance was in these areas also placed on poor peasants and agricultural labourers in carrying out the agrarian changes; and to the extent to which it has been carried out, it has brought to the people great relief and revealed even to themselves all that they have in them and how it can be used to the best advantage. Many men and women, who were taken to be merely earth worms, have shown capacity for leadership and understanding of the tasks which have to be faced when the tillers become the owners of land. Farming technique in some of these areas was almost primitive and in all of them there was great scope for its improvement. In order to raise the level of the farming technique state farms and agricultural instruction stations have been established at key points, fertilizers, improved seeds and agricultural implements have been distributed in large quantities, large state loans have been granted for irrigation and other permanent improvements and the incentive of higher prices has been used for increasing production.

The result has been rapid increase in agricultural yields and several communities, which were known to be short of food owing to the deficit in agricultural production, have it is reported, surplus of agricultural produce. Modern methods of agriculture are being used as far as possible. In Sinkiang, for example, in 1953 and 1954, 600 tons of insecticides were sprayed by aeroplanes to kill agricultural pests with very good results. The benefits of mechanized farming are being demonstrated; and mechanical aids are being largely used for soil reclamation. Most of the agricultural land on which cultivation can be extended in China, in these sparsely populated areas, have been brought within the orbit of reclamation. Irrigation is their greatest need, but other measures have also to be taken to make waste land available for cultivation. Hundreds of million acres of land in this area is estimated to be potentially cultivable; but it can be cultivated only if reclamation on a

large scale is adopted and planned settlement in this area is carried out for the local population is, as stated above, scanty and cannot provide the additional population needed for extending cultivation on a large scale. For the present comparatively modest schemes or reclamation have been introduced; but the agricultural possibilities of these areas are known to be great and would have to be utilised to bring prosperity to them and provide for rapidly growing population of the country as a whole. It is, therefore, not unlikely that mechanized socialist agricultural development in China, would be experimented with more extensively in these areas than elsewhere and require efficient organization and probably large scale transfer of population. Besides organized transfer of population to Heilingsing referred to in a previous chapter, migration of population on an organized basis to Kansu has also been planned and is taking place. The migrants are being organized into agricultural co-operatives, and medical, educational and housing facilities are being provided for them. Migration is taking place from Peking and Tienstin and thickly populated rural areas to areas inhabited by the minorities. This, it need not be added, makes it all the more essential that paramountcy of the interests of the minorities be fully preserved and kept clearly in view in the implementation of the policy of the internal re-distribution of population. This is, however, a task for the future; the way has been prepared for it by the development of mutual aid teams and agricultural producers' co-operatives. In Inner Mongolia by May 1955, 6,000 co-operatives had been formed and 70 per cent of the farmers had been organized in the mutual aid teams. In the other areas also mutual aid teams and co-operatives have also been organized but the progress is not even in the different areas. Socialist transformation of agriculture in these areas would have to be determined, as in the other parts of the country, by the pace at which these people can rise to the level of understanding and practice necessary for its success; but owing to the low density of population, the availability of empty spaces in which cultivation can be extended and also it may be, unsophisticated character of their inhabitants in these areas, the development of socialist agriculture is likely to meet with less difficulties than

in the rest of the country. The re-distribution of population, which is a necessary condition of this transformation in the densely populated provinces, would make it easier to carry out the transformation all over the country. The success of this measure in these areas would, in other words, create more favourable condition for it even in the other areas and probably be necessary for its extensive introduction. Transformation of rural economy in this area has, if this assumption is correct, a bearing upon the rate of transformation all over the country and is therefore of national importance for its future.

Animal husbandry and forest are, next in importance to agriculture, the means of livelihood for these minorities. Nearly three million persons make their living by animal husbandry and a million by forests. These two pursuits, besides being important for these people, are of national importance to the whole country; for outside these areas they are only of secondary importance and all the plans of their development described in Chapter IV, are practically in operation in these areas; and though the latter have been conceived and are being executed as measures for the development of the national economy, these minorities are, broadly speaking, the principle agents and beneficiaries of the implementation of these plans. As a result of the various measures adopted for the improvement of livestock the heads of cattle are estimated to have doubled in Inner Mongolia since 1919 and increased by 50 per cent in Kansu, Ninghesia and Sinkiang. Rational utilisation of pastures, preventive measures against cattle diseases, shortage of fodders, construction of barns and shelters, artificial insemination are the more important measures which have been taken for increasing the number and improving quality of livestock; and, as stated above, added greatly to the cattle wealth of the country. Scientific development of livestock and forests has almost unlimited possibilities in China, and these minorities can, if guided properly, enrich themselves and the country by co-operating in the planned development of these resources. Mutual aid teams and co-operatives of herdsmen have already been formed and are reported to be growing rapidly. In this

sphere also producers' co-operation is likely to be developed with less difficulty in these areas; and as these economic activities are mainly confined to them, socialist transformation would not it may be assumed, come up against serious obstacles owing to the resistance of vested interests or lack of understanding on the part of the people. Wool, meat, leather, dairy products, timber, raw materials of various sorts are the important products of this region, can be produced much more abundantly for the country and are urgently needed for improvement of the living conditions of the people. Prosperity of the inhabitants of this region is the essential condition of the well-being of the whole nation, for the more they produce, the better off and not only they, but the people as a whole would be, for at present most of these articles are in short supply, and increase in their production is an urgent national necessity. Rapid development of animal husbandry and forests is a clear case of double coincidence of wants from the national standpoint and the rate called for by the needs of the country can only be set up through planned action by the state. Further socialization of production of these commodities would serve this dual purpose and is, as stated above, clearly indicated by the facts of the case. The fact that the conditions in this region make this course not only desirable but very feasible can be made the basis of the anticipation that it is likely to be adopted both in the regional and national interests.

Industrial development of these areas is, however, even more remarkable than the changes in commerce, agriculture, animal husbandry and afforestation. In these areas practically there were no modern industries before 1949. Now in Sinkiang, Kansu, Inner Mongolia, Kweichow, Yunnan rapid development of industries has already taken place and is to be accelerated; and it is known that intensive survey of mineral resources has shown that this region is much richer in mineral and oil than it was previously estimated and their development would necessarily require a rapid rate of industrialization in this region. Already oil industry, coal mining, mining of iron ore, production of non-ferrous metals, textile mills and paper mills have been developed and their output has been increasing rapidly. Development of steel industry and further develop-

ment of a number of other industries, has been planned and the plants are already being installed. These developments and also even the development of textile mills and other light industries, are due to public enterprise; and as all industries are state-owned, the need for transformation in industries does not exist and all industrial production is socialist production. Local labour is already important in industrial production and its importance is growing and technical personnel from the minorities are being trained, and will more and more hold higher positions. Industrialization of these areas, besides realizing their possibilities, reduces the relative industrial importance of the coastal provinces and removes the previous disequilibrium in industrial development, i.e. it leads to a more balanced industrial development of the country. With rapid industrialization of this region much larger industrial labour would be needed and there is hardly any surplus labour available there, movement of population into these areas would be necessitated as much by its industrial development as by the extension of cultivation. That would, of course, mean that while the minorities would have their full share in industrialization, population of these areas would become more mixed, and given the equality of status and opportunities, that would have important results from the standpoint of the composition of population. The minorities will, in probably a decade, move from low agricultural and pastoral stage to advanced industrial stage and from feudal and even pre-feudal economy to a developed socialist industrial economy. The intervening technological and social stages of development, it is fairly reasonable to assume, would be skipped by these people; and they like the Tajiks, Uzbeks and Kaziks of Soviet Asia, would move into a new period of history well equipped to play their part in the new national economy of China. In commerce already state-trading is practically all important, in agriculture and animal husbandry initiative lies with the state and socialist production is growing rapidly, and in industry, whose accelerated development is planned and is unavoidable, there is no private enterprise and it cannot develop in the future. The conclusion is clear, and that is that these minorities are very favourably circumstanced for going ahead with rapid

strides; and in socialist transformation not only are they likely to overcome their initial disadvantages, but may be in advance of the people living in the other parts of the country. Their full capacity will, of course, be disclosed when these possibilities are fully realized; but all facts point to their being able to keep in step with the general advance in the country and, as stated above, in some respects attain a higher level of social transformation. They were handicapped by their past and still need special measures of assistance; but it is evident that social therapy is already producing good results, for these people would, within a short time, be free from disabilities and write an entirely new chapter in their history.

Sinkiang, Inner Mongolia and Tibet are, as stated above, the old homeland of the people who are living there and brief reference to the economic changes that are taking place in them would indicate how the life of those peoples is being transformed. Sinkiang with an area of 1,700,000 kilometres represents nearly one-sixth of the total area of the country, has a population of over 5 millions, of which only 6 p.c. are the Chinese i.e. Hans and the rest consist of 12 communities of whom 75 p.c. are Uighurs and 8 p.c. Kaziks. Seventy p.c. of the population is engaged in agriculture but nearly four-fifths of its cultivable land is not cultivated. Through soil reclamation and irrigation cultivation has already been extended and more dams are being constructed to make water available for developing agriculture. Land-reform and re-distribution of land have created conditions under which the peasants can do their best and enjoy the fruits of their labour. Trade of Sinkiang has very rapidly developed and its skins, furs and wool, her traditional products, are being exported to other parts of China and Soviet Union mainly through the State Trading Corporations. Animal husbandry has been rapidly developed and Sinkiang had in 1954, 18 million heads of cattle, 6 million more than three years earlier, the incidence of cattle diseases has been largely reduced and through artificial insemination and otherwise the quality of cattle has been greatly improved. Regional autonomy and development of health, education and cultural services and inter-communal harmony have changed the political and social basis of the life of the peoples and created

new social incentives. The most spectacular change, in Sinkiang, however, has been brought by 'shaping a new industrial land-scape' in the province and the whole of North West i.e. Sinkiang, Kansu, Shensi and Chinghai, which cover over a million square miles and one third of China's territory. In this development Soviet aid has been of crucial importance, and the position was well summed up in an article in the Financial Times (London) on December 6, 1954 and in the following extract from it the changes that have taken place are clearly described "In the hands of the Soviet industrial planners Sinkiang has changed beyond recognition. They have opened up mines, sunk colliery shafts, drilled oil wells, built two large refineries and completed a cracking plant and a number of ancillary works, including power stations. Where only tools of stone, copper and iron were wielded, steel and electricity are shaping a new industrial land-scape. The change brought about by a new building boom and burst of new industries is seen at Urmuch (Capital of Sinkiang), where the sky line has become a forest of tall factory chimneys. At Yummen (in Kansu) with its dense concentration of oil derricks, and at Lanchow, a new city of over a million inhabitants, the historical panorama of China's economic geography is completely being altered. Among other important developments is the discovery of oil in Karmai, where a new oil city is being built, which is known to have very large potential supply of oil. The survey has revealed that the whole Dzungarian basin in Sinkiang with an area of 57,000 square miles, two thirds of the size of Rumania, is oil bearing and several more fields on the scale of Karmai may be found. This discovery and similar discoveries in Sikang, Tibetan plateau, in parts of Yunan, Kweichow and Kwangsi in the South West have greatly enlarged potential oil resources of China and improved to a very considerable extent the prospects of her being able to become far more self-reliant in respect of the supply of oil. The Soviet industrial planners have now practically withdrawn, the joint Sino-Soviet Corporation has now become a purely Chinese undertaking; the Uighurs, the Kaziks, Uzbeks, Tartars and other smaller minorities are now being given industrial training, and are expected to participate fully in

further altering 'the historical panorama' of their economy. Modern industrial plants have been installed in many backward countries, but the real significance of this development in this region lies more in the social changes with which it has been accompanied and its new over-all planned economic strategy than in their spectacular technical developments.<sup>1</sup> Sinkiang has been very important in history, and it may again, through the immense changes that are now in progress, emerge as an important factor; and if it does, it is likely to demonstrate how the track of centuries can be covered in years and through a spirit of genuine fellowship, science, knowledge and technique can produce social benefits of incalculable value.

In Inner Mongolia the communists won an early victory and organized the autonomous region in 1947, carried out land reform in 1947-48 and rallied the people in support of their plan of development. Agriculture, animal husbandry, forestry and fisheries have been rapidly developed. The area of Inner Mongolia was originally 231,600 square miles and its population only 2½ millions, but with the merger of the neighbouring province of Suiyuan it is now over 6 millions. It has large area of fertile agricultural land, its pastures are vast and rich, forest resources in the eastern part of this region are one of the biggest in China and its fisheries are also of great importance. By organizing the peasants, the herdsmen, the forest worker and the fishermen in the co-operatives and adoption of technical measures, the supply of food, wool, meat and dairy product, timber and fish have been greatly increased and through state trading exchange of goods on fair terms rapidly enlarged. Inner Mongolia had no industries to speak of before 1947, now it is known to have two hundred factories, large and small, in 1953 its industrial output was

<sup>1</sup> Importance of potential oil and mineral resources of Sinkiang is indicated by the fact that in March 1957 10,000 experts, technicians and workers set off for this year's field work in this province. In addition to the continued prospecting for oil in Karamai oil fields and Dzungarian basin, prospecting of copper, lead, zinc, phosphorous, limestone and of coal in the Urmuchi region and iron in Tien Shan Mountains will be conducted. Industrialization in Sinkiang, it is fairly clear, is likely to yield results of great value to the province itself and the country as a whole.



estimated to amount to nearly 18 p.c. of the total output of agriculture and industry and in 1954, 47 new factories went in production. Its coal mining has been developed and mechanized, and big steel works under construction at Paotao and the Lanchow-Paotao railway would, it may be safely assumed, greatly accelerate industrialization of the area. The Chining-Ulan Bator railway, besides developing Sino-Soviet trade and traffic, should contribute to the prosperity of Inner Mongolia. This province is autonomous, but all the same, within the framework of China's new economy, its economic potential is a great asset for the country as a whole. The new mineral surveys have shown that it has abundance of iron, copper, gold and quartz; and their full utilisation would make Inner Mongolia one of the most important industrial regions of the country. Immigration into the region will have to be planned as for the full development of its resources much larger population would be needed. The planned immigration would necessarily raise new issues, which can, within the framework of autonomy, equality and partnership, be dealt with as and when they arise. This development, however, is not being planned at present; and so far the Mongols and the other inhabitants of this area have provided the required man-power without any difficulty. They are acquiring the new techniques and using them to advantage in agriculture, animal husbandry, forestry, fishery and, of course, industry.

There is really not much to say about economic development of Tibet. The two new highways are the most important development that have taken place and they are already being used for expansion of trade through the State Trading Corporations. Geological surveys have been carried out and are reported to have shown that mineral wealth of Tibet is of great importance and should be developed. Integration of Tibet into China is complete; and though great care is being taken to respect the susceptibilities of the Tibetan people, it is clear that the development of health and educational services would prepare the way for economic development of Tibet on the same lines as in the other parts of the country. Tibet would, with the development of communications, cease to be

a land of impenetrable mystery. Its people are extremely poor, disease ridden and have been exploited badly by its theocracy. Assuming again that the principles of equality and partnership would be fully observed, it would be to their advantage to give up their isolation, modernize their economic life and develop a socialist society. The national minorities living in the south i.e. in Sikang, Yunan, Kweichoo, Kwangsi and the Hainan island are over 21 millions in number, more than four sevenths of the total population of the minorities in China. They are receiving assistance for the development of agriculture, animal husbandry and forestry, hospitals and schools are being built for them, the communication, including the Lanchow-Kuming railway and the Litang (on Honan-Kwangsi line)-Tsamkong railway on the Lincho Peninsula off the Hainan island, are being constructed and extended and their mineral resources are being surveyed and appraised. Large-scale planned development of this area has not yet been undertaken and would have to be included in the second and third five year plans. These peoples have been more isolated than the minorities in the North and North-West and greater effort would be needed to bring them into line with the general development of the country. Their potential resources are also large and would have to be developed fully in the interest of the national economy. For the present, however, as stated above, they are still in a preparatory stage. The Chuangs, who live in Kwangsi and number about 6 million—the largest single minority in China, the Puyis in Kweichoo, the Thais in Yunan and a number of other smaller communities—all are being regarded as members of the 'multi-national family' and have to participate in the socialist transformation of the extensive areas in which they are living. Essentially speaking, the minorities of the North and the South are on the same footing and the majority community is under the social obligation to extend equally fraternal help to both of them.

It is considered essential that the minorities should produce their own leading cadres, and the affairs of the autonomous areas should be administered by them. Seven institutes, including the central one in Peking, have been established to

train the cadres belonging to these minorities and nearly 5,000 persons are receiving training in the institutes from the elementary to the university level. These students are trained to develop a sense of nationality, i.e. regard themselves as members of the same nation and cultivate friendliness towards the other minorities. By living together they are taught to understand one another and respect one another's feelings and customs. In all these institutions provision is made for Muslim and Buddhist forms of worship and the Muslims have their own dining halls in which pork is not served. Their folk music and folk dancing are encouraged and no attempt is made to standardize their dress. They all learn through local languages as far as possible but also learn the Chinese—the Mandarin—as their common language. The general social theory is the same for them as for the cadres in the other training institutes, i.e. they are given an understanding of the Marxian theory—suited to their own level of development and are imbued with socialist outlook. They are given also a course in the problems of transition and courses in special problems of their own area and community. Training in these institutes aims at combination of nationalism, socialism and cultivation of the distinctive qualities of the minorities; and the objective is that the cadres should work for their own communities in the autonomous area, foster their special cultural character, and realize that their economic development has to be socialistic essentially and in accord with the general development of the whole country. Besides these institutes the cadres of the minorities are also being trained in other ways—through short-term courses special camps and administrative work in the capacity of apprentices. By 1954, 140,000 cadres had been trained in various ways and more were under training. In Sinkiang there is a university with Arts, Science, Technical, Agricultural, Pedagogical and Medical faculties, and in the Kirin province there is another university—the Yonpin University for the Koreans. These training institutes, having been developed in the last four or five years, are still in the process of growth and their teaching theory and practice have not taken final form as yet. There is, however, no doubt that the approach to the problem of

training the cadres belonging to these minorities is right and the spirit in which the work is being done unexceptionable.

These minorities, though only six p.c. of the total population are, it may be repeated, living in vast undeveloped areas of the country whose potential resources are enormous and of vital importance to the future of China. It is a great gain that these minorities have been guaranteed a position of equality under the Constitution; and the provision is being respected in theory and practice. The Soviet example in regard to the minorities has clearly demonstrated that racial differences are secondary if not inconsequential, if equality of opportunities for development is provided for all communities and the minorities are assisted to realize fully their own possibilities. The Chinese are acting upon the same theory and striving to apply it with necessary adaptations to their own conditions. They too have achieved a large measure of success, though the areas in which their minorities are living have still to be fully developed. These areas are extremely important to the Chinese because: (a) the treatment of the minorities would be a real acid test of their social faith and practice (b) there are large potential resources in these areas which are of fundamental importance for the development of agriculture, animal husbandry, forests and industries and (c) these areas are sparsely populated and would provide large outlets for the surplus population of the densely populated parts of China. The development of these areas has, therefore, to be undertaken with proper appreciation of the issues at stake and there is no doubt that the future of the new economy would in a large measure be determined by the degree of success with which the great task is actually accomplished. In all periods of history and in many countries failure in dealing with the problem of creative co-existence of the communities at different levels of development has accounted for *human tragedies on a colossal scale*; and at present in America, Africa and Asia, it is well-known, 'many sacred trusts of mankind' have been and are being betrayed and many tense situations, some chronic, others acute, have been created which are a great challenge to the men of good-will everywhere. The maturity of Chinese culture, will, among other

ways, be known by the way they bring these minorities into their social revolution and make them both its beneficiaries and promoters. They have made a good beginning in this respect and shown that they understand the problem in its different aspects. It may be earnestly hoped that they will attain the object they have in view.

## CHAPTER XII

# CURRENCY, CREDIT, BANKING AND PRICE

CHINESE CURRENCY, credit and banking system and also her price structure suffered, as stated already, even more than the rest of her economy from the progressive disintegration of the war and civil war years and at the end the currency and credit system had practically ceased to function. This is only another way of saying that hyper-inflation had run its course and the whole economy was in a state of complete exhaustion owing to the frenzy of the soaring spiral of prices having worked itself off to its logical conclusion of reducing the economy to a state of prostration. It was essential for its recovery and development to set the price system on its feet again and give the people the assurance that the nightmare of sky rocketting prices and its consequent sense of complete insecurity were definitely over. It was clearly realized that price mechanism and money economy were indispensable not only for economic rehabilitation but also for social transformation; and there was no intention of introducing or developing 'natural' economy i.e. production and exchange on barter basis. It was, however, realized equally clearly that hegemony of money and prices as a moving force of the economy, as a determinant of production, allocation of resources and distribution of goods, had to be put an end to and replaced by a schedule of priorities drawn up by the organs of the community and in the interest of the community, i.e. by a planned economy and therefore of planned money and prices. In other words, it was understood that money would be needed as a unit of account, and within limits, prices could be used as a measure of individual preferences in consumption and also for regulation of demand; but there was no question of restoring market economy—an economy in which social values would be expressed by and subordinated to money values. Stability of prices

was an essential condition of rational working of the economy, but the prices had to express but not determine social decisions, though, as stated above, they could be used as indices of demand and partly as its regulator. This conception was the basis of the measures taken to revive and stabilize the price system and has been and is guiding the men at the helm in shaping and working the new currency, credit and banking system. There is, it needs to be understood, a difference in kind between the currency and credit system now in operation and the one which was disrupted and discredited by 'the insanity fair' produced by the inflationary forces

The old currency and credit system had to be radically altered not merely because of its perverse manifestations but mainly because (a) it was an instrument of a hybrid economic system, i.e. of a decadent feudalism on which was grafted an imported aggressive capitalism and (b) it, in a large measure, had been used for foreign economic penetration and domination and stood self-condemned by the results which it had produced. This system was controlled by foreign interests and served their ends. It was, therefore, necessary to remove the latter (foreign interests) completely from position of authority over the currency and credit system; but it was also essential to change its functions and purposes for regaining complete autonomy of China and building up, as pointed out in the preceding paragraph, the new economy.

The old currency and credit system, both in its monetary and banking aspects, reflected the contradictions inherent in the economy and accentuated them. The currency system had been reorganized a number of times, but its limitations were not and could not be removed by those measures. Foreign currencies during the 19th and 20th centuries were in circulation in large amounts in the coastal provinces. Owing to political instability and ineffective currency control of the Chinese issuing authorities, foreign currencies enjoyed greater prestige and confidence among the Chinese people; and being based upon silver the national currency was subject to wide fluctuations owing to the change in the international value of silver. In 1935 the gold-exchange standard, i.e. the system based upon gold and foreign exchange reserves, was introduced

but had no time to consolidate its position owing to the outbreak of the war in 1937. During the eight war years rapidly depreciating national currency, the Zonal Japanese currencies in the occupied areas and the new currency in the 'liberated', i.e. the communist controlled areas were in circulation; and after the war final attempt made in 1948 to base the national currency on gold and to restore confidence in it completely failed, the impending collapse of the political regime involved even greater inflationary pressure than ever before and led to complete collapse of the currency. In 1949 the currency circulation was 176,800 million times of the amount in 1937 and the nemesis by which it was overtaken was, of course, only an incident of the whole polity having lost completely the reason for its very existence.

The old banking system consisted of (a) four state-owned or state-controlled banks (b) foreign banks (c) joint-stock commercial banks and (d) indigenous banking houses. Among the four public banks the Central Bank of China occupied a pre-eminent position. It was founded in 1924 and grew in importance with the increase in the power of the Central Government. It was proposed to convert it into fully developed Central Reserve Bank, but owing to the war it was not possible to execute the plan. It had the right of note issue; and in 1942 the right became exclusive. It had its Board of Directors, the Supervisory Council and the Governor and Deputy Governor, and it performed the usual functions of the Central Bank, i.e. custody of public deposit and reserves of the commercial bank, clearing accounts, re-discounting bills of exchange, issuing of public loans, granting short-term advances to Government, foreign exchange control and foreign remittance. As a rule it did not deal with industrial and commercial firms directly. In 1934 it had 1086 branches and sub-branches. The Bank of China began as the leading banking institution and grew out of the Ching Bank of the Manchu dynasty. In 1935 when the Central Bank of China was formed, it was authorised to deal exclusively in foreign exchange, and its bank notes were made legal tender. In 1943 its capital was increased and two thirds of the total amount was held by Government. In 1944 it had 203 branches and sub-bran-



ches and 10 agents in foreign countries. The Bank of Communication was founded in 1907, but was designated as industrial bank in 1928 and it also had the right of the note-issue until 1942. It was owned by the state and in 1944 had 120 branches and sub-branches and also a branch in Calcutta. The fourth public institution was the Farmers' Bank of China founded in 1933 by amalgamating 4 Provincial Farmers' Banks and after 1935 it specialized in granting loans to agricultural enterprises, farmers' co-operatives and for opening of granaries. It also had right of note-issue which was taken over by the Central Bank of China in 1942. It had 373 branches and sub-branches in 1944. These four banks since 1937 worked under the direction of the Joint Board which exercised general powers of supervision and control over them, audited their account and co-ordinated their functions. These institutions had necessarily to work within the limitations of the system under which they were functioning, were used more for promoting the objects of oligarchy in power than for serving public interests and unfortunately also for amassing large private fortunes. When inflation was mounting and at its height, they were drawn into its feverish courses and their legitimate functions lost all importance or even relevance. When the collapse came, they were in a state of prostration, the Bank of Communications and the Bank of China were later, as stated below, re-organized and incorporated into the new system and the other two institutions died out.

Foreign banks, as stated before, were the most important factors in building up and consolidating foreign domination of China. In 1934 there were 52 foreign banks with 151 branches, but owing to mergers and war casualties in 1949 there were only 14 foreign banks with 29 branches, but the institutions like Hong Kong and Shanghai Banking Corporation, the Chartered Bank of Australia, Malaya and India and the City Bank of New York, which had, throughout this period, been wielding great power in the Chinese economy and making enormous profits were, even on the eve of the revolution, of very great consequence. They controlled foreign trade and largely foreign exchange, were even in position of authority in regard to most industries, and, through the

whole comparador economy, they realized a large measure of penetration into the interior. In the past they had, through granting or negotiating foreign loans and otherwise, exercised sinister influence in power politics, supported reaction and disruptive elements and made it as difficult as they could for constructive forces in China to come into play. They issued currency notes of their own, put into circulation foreign currencies and encouraged speculative tendencies of a very unhealthy type. They, owing to their position, attracted large deposits;<sup>1</sup> particularly those which were accumulated through the gross abuse of public authority or gigantic fraudulent transactions and were the channel through which ill-gotten large fortunes were transferred to foreign countries.<sup>2</sup> They were, as stated before, in the narrow sense of the word, honest and efficient, i.e. they maintained their accounts well, met promptly their obligations and had large liquid resources; but they not only exercised a malign power over the Chinese economy but used all possible means to gain their ends and in real sense of the word, were extremely dishonest, unscrupulous and hostile to the interests of China. As stated before, a few of these banks are still maintaining their offices in China, but they are not operating, on any scale to speak of, and it is clear that it is merely a matter of time before these institutions close altogether their remaining offices in China. They can obviously have no place in the new economy of China. They belong to the past which is gone beyond recall.

<sup>1</sup> The following indices of decrease in the business of foreign banks are of interest: - Taking 1950 as the base year and the business of foreign banks as 100, in 1951 the index was 12, in 1952 2.5 and in 1953 .5. Embargo imposed by the U.S.A., apart from the other developments unfavourable for the operations of these institutions, has largely contributed to the diminution of their business.

<sup>2</sup> In 1933 in the Hong Kong Shanghai Corporation 5 Chinese had deposits of \$ (Chinese) 20 million each and 130 ten million or more. The warlords were among the most important customers of these banks. Tang Chi-yao, a warlord from Yunan province had \$ (Chinese) 50 millions in the Yokohama Bank — three warlords Chang Tsi-lang, Sun Chuan-pong and Cheng Sun-chuang had deposited \$ (Ch.) 20, 13 and 5 millions respectively. 'The Four Families'—the Changs, the Kungs, the Chen and the Suns—are reported to have accumulated and remitted to foreign countries \$ (United States) 20,000 million mainly through foreign banks.

The Chinese joint-stock commercial banks performed the ordinary banking functions, i.e. received deposits, gave advances and discounted bills of exchange, but a large number of them were very small institutions, were, according to the ordinary canons of banking, not well managed and their resources were limited and not utilised to develop the economy. They occupied a minor position in the country's credit system, believed in quick returns, speculation had an irresistible attraction for them and they were used by the foreign banking firms to further their interests. Being confined to the coastal towns, they had no contact with or interest in the hinterland, and their business was closely interwoven with that of 'bureaucratic capitalism' i.e. with transactions often questionable, of the few men, as explained before, in power who combined political authority with control of a large number of industrial, commercial and financial firms and worked in subsidiary alliance with powerful foreign interests. There were 100 commercial banks in 1935 of which 43 had no branches and 57 had 407 branches, most of them, as stated above, in coastal cities. Indigenous bankers often combined trade with banking and also money-lending at usurious rates; but they too had a subordinate place in the organized banking system of the country and often in their relations with foreign banks many of them functioned as their agents and served their interests. These institutions were also severely hit during the hectic period of inflation and were in a state of collapse when the new regime came into power.

In the new state, the old currency had to be replaced by a new currency and the credit system had to be completely re-organized to remedy old evils and fulfil new purposes. Inflation led to complete depreciation of currency by September 1948, and new (gold) currency was issued to take its place, but in a year, i.e. during the year of retreat, the new currency itself became worthless, the currency in circulation having been increased from 295 million to 82,000,000 millions or by nearly 291,527 times. Index number of prices in Shanghai in third week of April 1949 was 5.06 millions with January-June 1937 as base, i.e.=100, and commodities of everyday

use were sold at fabulous prices. The issue of new currency having become unavoidable, the occasion was used to formulate and apply new basic principles of currency system. Stability of currency was not a new principle, but it was realized that its importance would be all the greater in the development and working of the new economy. This object could not be achieved until March 1950 owing to the administration being on an insecure basis, but since then stability of prices has been achieved and their variations have been reduced to very narrow limits in spite of the strain of the Korean war and heavy defence and investment expenditure. This is an achievement on which the new state can rightly congratulate itself; but what is of greater significance is that stability of prices is directly the result of new currency and economic technique and is on that account an essential part of the new social system. Price mechanism does not now work as an autonomous, automatic apparatus but is meant to serve and in practice largely does serve the ends of social policy and stability of prices is one of its important means. There is uniform, unified currency for the whole country, circulation of gold and foreign currency is illegal and has been stopped. This too is a very important gain in as much as it implies that economic sovereignty of the country is an accomplished fact, there is and can be no competition between national and foreign currencies in the economy of the country and full allegiance of the people is assured owing to the new currency serving the best interests of the people. Gold, as is well known, has in practice lost its position as a fundamental factor in currency systems all over the world, currencies are not convertible into gold for internal purposes and it has been almost completely withdrawn from circulation. In theory, however, these currencies are based upon gold reserves and their quantity in circulation is limited by the amount of gold in the reserve, though this limitation is in fact made inoperative by maintaining large surplus reserve over statutory minimum or raising continuously the maximum limit of the currency issue not covered by the reserves. In China and in the Soviet Union and the other socialist countries the position is the same—both in theory and practice gold has ceased to be the basis and regulator of currency,

there is no private trade in gold and the quantity of currency in circulation is determined entirely by the needs of the people and development and expansion of the economy. In the non-socialist countries gold is 'sterilized'—i.e. rendered ineffective by various devices for determining the quantity of money in circulation and the rate of its expansion or contraction; but in China there is no question of gold having even a 'prestige' value for currency purposes and has become a discarded bauble—in the Keynesian words a true 'relic of barbarous times.'

Gold is being mined, acquired and bought and sold by the state or under its regulation, but it is only a commodity, for the people, it is neither the measure nor the store of value and for the state its only use is that it can, if the need arises, be a means of settling international account. China has unknown quantity of gold in reserve and the latter is reported to be growing, but her currency is independent of it and its soundness is based upon (a) stability of political power (b) strength and expansiveness of the economy and (c) the confidence of the people in its underlying principles and its future. In China there is not only no gold currency in circulation but gold has been completely dislodged from its position in the currency system, and social judgment based upon the knowledge of economic facts, analysis of the economic situation and assessment of the needs of the future have been substituted for it as the prime movers of the currency system. This tendency is inherent in the modern currency system of all countries; but it can be rationally and fully realized in a socialist economy; and in China the change has already largely occurred and future development of economy would further clarify the implications of planned currency as a necessary part of planned economy. The last important development of the new currency, which needs to be mentioned, is that its stability and soundness are also independent of foreign exchange reserves and it has no international linkage. The Rouble, as stated already, is being used as unit of international account for four-fifths of China's foreign trade and the sterling, the Swiss franc and also the other national currencies

are also being used for the same purpose. Through the payment agreements, the clearing arrangements are also being developed and the benefits of multilateral trade, though very partially, are being realized. China eventually would necessarily participate in a world payments' union in which international balances can be largely offset and international accounts settled by wider and fuller application of the underlying principles of the International Monetary Fund. This is, however, a development which must wait upon international trade becoming really non-discriminatory and mutual benefit rather than scramble for markets becoming its guiding principle. In the meanwhile the course of China in this respect has necessarily to be determined by empirical considerations based upon appraisal of her own needs, international economic relations and future trends. The essential point, which needs to be understood, is that at present there is no provision in the currency system of China for maintenance of foreign reserves in any designated currency or currencies; international securities have no place in the arrangements for the settlement of international accounts, there is no provision for what is called a foreign exchange equalization fund, her currency is not linked to any leading currency of the world and she mainly relies upon equilibrium of her international trade accounts for keeping her economy on an even keel. China's new currency is stable, unified, independent, flexible and what is most important an instrument of growing efficiency of a developing socialist policy. The new currency is completely unlike the old currency even at its best, but that is because in its objectives and operations it is an apparatus which is in the process of being perfected for the realization of socialist society. It is new currency not because it is called Peoples' currency and has new engraved designs on the currency notes, nor even because it is stable in value, it is new because of its new immanent conception and its *modus operandi*.

When the new currency was issued in 1949 and later stabilized in March 1950 it was such a phenomenal improvement upon the state of things in which a million yuan note hardly purchased even a drink and several million yuans had, as stated above, to be paid where one yuan was paid before;

but the units of new currency were, in spite of this fact, very small, almost negligible for practical purpose of one yuan had no exchange value in the market and the basic currency unit was practically 10,000 yuans. Wages and salaries were calculated in terms of yuans, but 300,000 per month was generally speaking the minimum wage in most cases, monthly incomes of a million were not uncommon and rose to 2 to 3 million or in a very few cases to even 5 millions in the highest salary brackets. Under this calculus in Peking on the 29th November 1954 market price of flour was 1920 yuans per catty, of high quality rice 2,070, of edible oil 6,300, of pork 7,700, of mutton 7,200, of salt 1,200, of coal 15,800 per 100 catties, of standard blue cloth 3,400 per foot, of tooth-paste 3,300 per tube. The range of price was about the same in other parts of China and the variations were confined to narrow limits. Postage rate for a letter inside the country was 800 yuans and nearly 5,000 for an air mail letter to India. These figures illustrate the inconvenience and the cost in labour of this scale of reckoning prices, wage payment, business accounting or budgeting of all economic units and administrative areas at all levels. This calculus continued to be used until March 1, 1955, on which date, the Peoples' Bank of China under the orders of the State Council i.e. the cabinet, issued new-bank notes to replace the old currency at the rate of 10,000 old yuans for one new yuan. This process was completed in China in a few weeks, there was no change in the index of prices and cost of living on that account and the old prices, incomes, service charges, postal rates, freights and fares and all outstanding or current obligations were converted into new currency at the official rates. Now metric system has been adopted, one yuan is equal to 100 fens and ten fens make a chiao i.e., there are ten chiaos to a yuan. The new currency has been issued in one, two, three, five and ten yuans, one, two, and five chiaos and two and five fens. This change does not affect the value of savings, deposits, individual currency holding and is on a non-discriminatory basis i.e. it applies to all in the same way and no class suffers on this account. In this respect it differs from the currency reforms in the Soviet Union, in the countries of Eastern Europe and in countries like

Belgium and Netherland. It merely introduces a new unit of reckoning, simplifies account keeping and knocks off four unnecessary zeroes in all schedules of rates. That it took China four years to introduce this obviously necessary change indicates how the men in authority proceed experimentally and make changes when, in their opinion, the time is ripe for them.

The Peoples' Bank of China was founded on December 1, 1949 and is in direct line of succession not to the Central Bank of China, but to the Peoples' Bank in 'Liberated' area. In 1949 it had 900 branches and sub-branches; in 1954 it had 19,000 branches and the number of its employees increased from 20,000 to 300,000. It is a central bank, but not a bankers' bank. It is the only bank of issue in the country, it receives public deposits from all administrative units, from the state-owned industrial and commercial enterprises, from the co-operative enterprises, from all institutions and from private firms and individuals. It functions as the nation's exchequer, all public payments are made by and through it, all state-owned enterprises pay to one another by drawing cheques on their account and private firms and individuals can have their banking accounts with the Peoples' Bank. It also provides clearing and remittance facilities and grants short-term loans for working capital to the public and co-operative undertakings, and also to private firms. It issues state bonds and promotes savings campaigns. It also grants loans directly or through the credit co-operatives to the peasants for current needs and the funds granted by the state for flood or drought stricken people are also disbursed by the Bank. It exercises supervision over the other banks and enforces the execution of public decisions relating to them.

The Peoples' Bank performs functions of the Central Bank and the Commercial Bank in non-socialist countries; but it does not merely combine functions of the two institutions. It is essentially a very different type of institution and its position in the new economy needs to be carefully understood in order to know one of its most important mainsprings and understand its working.

What are the essential differences? They are - (1) There are no provisions with regard to the maintenance of reserves;



and as its liquid resources consist of currency notes and most of the accounts are operated upon by drawing cheques, i.e. through book debits and credits, the need for reserves for internal purposes does not exist and cannot arise. As the Bank does not go through the meaningless form of creating public securities for issuing notes or acquire any other assets for the purpose, it has unrestricted power of expanding note issue and the only safeguard against over issue or the grant of excessive credits are its own judgment and the scheme of credit allocations under the Plan. As the printing capacity of the press is no barrier to the issue of notes, the currency is completely flexible and can be adjusted to the country's actual requirements. It is also really true of all countries, but the anachronistic reserve requirements of the central banks seem to imply a protection against over-issue which in fact does not exist. The only safeguard against excessive expansion of currency is really the policy of the Government and the judgment of the central banks; and if the errors of policy and judgment occur, the reserves which they are required to or do in fact maintain, cannot be their correctives. In China the reserve requirements do not exist; and the whole issue of policy and its implementation is squarely presented and has to be dealt with by an effort of the mind and not by varying the composition of the reserves.

(2) Credit advances are given by the Peoples' Bank not according to the assets of the enterprises and institutions, but their planned allotments. In the preparation of the credit plan the Peoples' Bank and the Administrative Bureaus both consult each other and come to an agreed conclusion, and the Plan sets the limits which cannot be exceeded without their approval. In certain special circumstances, the Bank can relax the restriction and permit enterprises to overdraw; but such cases are unimportant and the condition, under which they occur, are clearly defined. Loans, as a rule, are granted according to plan, and for periods laid down in it. As these credits are granted for working capital i.e. for buying raw materials, payment of wages and short intervals between completion of production and transfer of wares to the concerns for whom they are made and which are under the contractual

obligation of taking them in planned quantities and at planned prices, the period of loans is, as a rule, three to six months and cannot exceed a year. There has to be a provision for modifying the Plan to correct initial mistakes or meet new situations; but the fact that the grant of credit is planned and it has to be drawn upon in an orderly manner reduces greatly the possibility of over-expansion of credit. This is an important difference; but the main point is that credit is drawn as a matter of right and its limit is defined and its purpose specified in advance on the basis of experience and the assessment of needs. The Bank participates in the preparation of the credit plan and its administration; and this function is discharged according to the substance of the Plan and its implicit social purpose. The Peoples' Bank is not merely an account-keeping institution; it has to focus and express judgment on the extent to which social decision embodied in the Plan are being adhered to in production. There is no question of collateral securities, safety margins and discount of bills supported by warehouse receipts or bills of lading. These safeguards are unnecessary in the implementation of credit plan. The correctness of the latter and the soundness of the decisions embodied in it are all important, but credit is granted on the basis of social priorities and not on the borrowing capacity of the client measured by his assets. The Peoples' Bank grants credit directly and does not need any intermediaries for this purpose—no discount or acceptance houses or bill brokers. Its own staff is required to deal with all issues on the basis of personal knowledge and contact.

(3) Payment in cash, i.e. by transfer of credit is the strict rule of the inter-firms transactions and supply of goods by one firm to another on credit is not permitted. This means that all sales and purchases of the industrial and commercial firms, their cost of production, and productivity of labour and the stocks which they maintain, and the rate at which they are used and of course the prices which they charge or receive are, all reflected in the dealing of the enterprises with the Bank and measured by the rate at which they operate their credits and its purposes. The Bank compares credit operations

with credit plans (which give information relating to the planned (a) unit costs (b) wages and the output of labour (c) requirements of stock and its size and (d) the disposal of its finished products) and is in a position to know how far actual production corresponds to the planned estimate. It is its duty to know why, actual production in all these important respects is, if at all, at variance with the estimates on which the credit plan was based and suggest action needed to remove the cause of divergence. It may be that the plan has to be modified owing to its assumptions being defective, or a new factor has to be taken into account or the management is at fault. Whatever action may be indicated it has to be taken for there is no scope in the allocation plan for manipulation of accounts, drawing upon hidden reserves or under-drawing or over-drawing of the stocks. Mass supervision by labour and frequent and free discussion of achievements in relation to the planned estimate also are a protection against disguising errors or evading scrutiny. The Bank lays down and maintains an approved standard of cost accounting and it is one of its important functions, discharged through the operation of the credit plan, to guard against neglect of the essentials or back-sliding. Social emulation, economy realized through the carrying out of the approved innovations of the workers all come into the picture and indicate how far the actual achievements surpass the planned anticipations. It is clear that the credit plan in practice is not merely execution of the appropriation estimates. The Bank has to be the vigilant watchman of the manner in which the plan goes into effect and the extent to which it realizes its objectives. It has a pool of varied knowledge and experience, can indicate the possibility of improvement to a particular firm on the basis of the experience and achievement of the other firms in the same industry and function not merely as a clearing house of cheques but also of ideas, experiences and information about the methods by which 'snags' in the plan are being discovered and removed. This is underlying conception of the Peoples' Bank in action, and it is needless to add that it is basically different from the conception according to which the central and commercial banks—for the Peoples' Bank in practice com-

bines the two functions—conduct their work and adhere to the principles of sound banking.

(4) The Peoples' Bank has played and is playing an important role in granting credit to the producers, the trading, the handicrafts and the credit co-operatives in rural areas and also to the individual peasants and its achievements in this respect are briefly described below. The Peoples' Bank charges rate of interest on loans and advances and it also pays interests on deposits. This interest rate structure and its inner purpose are also explained below. Here it is necessary to state that those rates are neither prices of credit nor reward for accumulation of capital. Credit can be made available at much lower cost, for apart from advance of initial capital, credit really amounts to providing network of book credits and debits and is made possible by rapid turnover of initial capital, addition to it from the Bank's own surpluses and all firms maintaining accounts with the same institution and being subject to its regulatory control. The only cost to be covered is the cost of administration which does not explain the rates which are charged. The deposits of the Bank, are mostly public or corporate deposits and do not need incentive of interest payment. These deposits are maintained because they are incidents of the transactions with the Bank and are costless. The rates are not prices paid for savings or charged for the grants of credits. They are accounting costs, have not been fully rationalized as yet and their whole theory needs elucidation and clarification; but they are, as stated later, the outcome of a social policy and do not fit into the categories of interests rates current in the non-socialist countries. The Bank has no Discount Rate or the rates corresponding to the rate structure of the commercial banks determined by the assets of the borrower, his credit-worthiness and the period for which the loan is taken. There are no over-night loans, loans for speculation and loans for covering the period during which the consignments are in transit. The latter are mainly taken over by the State Trading Corporation or the trading co-operatives and financed by the use of planned credit. These rates neither determine the amounts of deposits nor its utilization. The Bank makes profits but it is not a profit making

institution. It carries out the state policy and is both an instrument and guardian of its execution; and the interest rates are a constituent element of the policy and expresses its purpose. They have, little except the name, in common with the Discount Rate of the Central Bank and the interest rates structure of the commercial banks in non-Socialist countries.

(5) The Peoples' Bank centralizes cash balances of the nation, increases their turn-over and makes it possible for the country to meet its cash requirements with smaller quantity of currency in circulation. This object is achieved by (a) the large scale inter-firm transaction being settled, as cited before, by credit transfer and (b) requiring all public authorities, state-owned commercial, industrial and financial enterprises to minimise their cash holdings and pay to the Bank all the currency that they receive in the course of their business. This applies specially to all trading undertakings and co-operatives, which, as stated in Chapter X, account now for the bulk of the wholesale sales. The Banks increase the relative importance of credit and reduce the need for currency in all advanced countries; but in countries like China, their tendency is greatly accentuated by the growing importance of state-owned or co-operative industrial and commercial firms and centralization of all credit and cash balances in one bank, and the importance of individual cash balances in the national economy is greatly reduced. With the increasing importance of the producers' co-operatives and specially of the trading co-operatives even in the countryside, mobility of currency in the countryside is bound to increase and the amount of currency in active circulation would therefore decrease relatively. The centralization of cash balances gives greater control to the currency authority to regulate the circulation of currency and its impact on prices. The Peoples' Bank is now in a position to determine to a greater extent the amount of currency in circulation, and for an undeveloped agricultural country like China, this is definitely a very important step in advance.

(6) In four-fifths of China's foreign trade the Peoples' Bank is also the agency for settling international accounts and for the remaining one fifth, the Bank of China, which works

under its supervision, transacts all the foreign exchange business. The Peoples' Bank has, therefore, full authority over foreign exchanges and the authority is mostly exercised directly and not through exchange control.

(7) For stability of prices it is essential that currency in circulation should not exceed the needs of the people, and it is the duty of the Peoples' Bank to suggest and take measures by which this object can be achieved. Public revenue and expenditure have to be balanced and this is being realized through the state budget, but it is also essential that values of commodities and currency in circulation should also be balanced. The Peoples' Bank through its numerous branches keeps the position constantly under review, analyses the relation between currency and commodities at selected focal points, assesses the situation and decides whether any action is called for; and if it is, it, through the measures which it itself can adopt or in conjunction with the State Trading Organization and the treasury, does its best to meet the situation. An estimate of currency in circulation is prepared in advance, through frequent reports, all China, regional and local, the actual situation is re-evaluated; and signs, if any, of incipient pressure of currency on commodities is examined and planned action is taken on local, regional or national basis. Dispersion of cash balances is, as stated above, being progressively reduced and the scope of effective action in achieving the balance between currency and commodities thereby enlarged.

The Peoples' Bank now mostly does business for the state. In 1954, for example, in Kalgan the proportions of its deposits in 1954 were as follows: (1) State 80.3 p.c., (2) Co-operatives 2.89 p.c., (3) Jointly operated enterprises 0.4 p.c., (4) Private enterprises 2.6 p.c., and (5) Personal deposits 14.17 p.c. Distribution of loans the same year was: (1) State industries and enterprises 64.3 p.c., (2) Co-operatives—1.86 p.c., (3) Jointly operated enterprises 0.08 p.c., (4) Private enterprises 0.13 p.c. and (5) Advance to peasants through the State Trading Corporation 33.8 p.c. Kalgan is a city of nearly 230 thousand and its area is 16 square kilometres, but these figures, generally speaking can be taken as illustrative of the magnitude of business it does for the state except that in most

areas the co-operatives are likely to have larger shares both in its deposits and loans.<sup>1</sup> Figures of currency in circulation, deposits and advances are not available; and it is not known how far expansion of currency and credit has taken place. Development of the economy and expansion of production and trade have not, it is known, in any way been limited by inadequacy or unsuitability of credit and currency mechanism. Owing to the rapid growth of socialist production and trade the basic relations between the latter and credit and currency have increasingly undergone radical changes and it would be possible to assess fully the nature and the extent of these changes when factual materials for this purpose are made available. The Peoples' Bank with its 20,000 branches and 300,000 employees is, however, it is safe to assume, acquiring increasingly crucial importance and it is one of the most important 'commanding heights' from which the whole economy is controlled, regulated, steered and transformed.

Employees of the Peoples' Bank are given short and long term courses through special institutes the Peoples' University, the Institutes of Economics and Finance and of course, practice. Their political education—i.e. understanding of social processes, objectives and forces and their relation to the work of the Peoples' Bank and of history, growth and future of the national economy receives special attention and the staff, besides being competent technically and maintaining high standards of integrity and devotion to duty, are required to know the perspective and the objects and line of the planned transformation of the national economy, in order to understand and appreciate the whole context in which their work has to be done. Their salaries vary from 80 to 200 to 300 yuans per month and a large number of men and women in key position have a good revolutionary record and with experience of work in the 'liberated' areas before 1949. The Peoples' Bank is directly under the State Council, and the Director and the Deputy Director are appointed by the Government.

<sup>1</sup> In Tienstin in 1954, to give another and more significant illustration, deposits of the state were 97.7 p.c., of the co-operatives 1.2 p.c. and private 1.1 p.c.

Reference was made above to the interest rate structure of the Peoples' Bank, and it was pointed out that their rates have a significance of their own which has to be understood. These rates are given in the footnote<sup>1</sup> and show that a definite order of preference in the granting of loans. The industrial and trading co-operatives are charged lower rate than the state owned industrial and commercial enterprises, and the industrial enterprises pay less than the commercial enterprises. Independent peasants have to pay more than the agricultural co-operatives and independent handicrafts more than the industrial co-operatives; and the highest rates are charged to the private firms, and these rates are higher than those which the jointly operated undertakings have to pay. These rates, as already stated, have no relation to any costs and are intended, as it is obvious, to put into effect a deliberate state policy of encouraging, aiding and developing the economic undertakings on certain lines. The rates have been reduced since 1949, but perhaps could and would be further reduced. The rates allowed on time savings deposits are higher than the rates charged by the Bank to the State, Industrial and Trading enterprises, to Agricultural Producers' co-operatives and to Handicrafts Co-operatives. It is also necessary to add that the rates charged for long-term advances are lower than those for current needs, the rates for example charged to the peasant for permanent improvements involving credit advances for three to five years are three-fourths of the rates charged for seasonal loans. The rate structure, it is obvious, is very different from the rate structure of the banking system of the non-socialist countries, and clearly expresses the needs and func-

<sup>1</sup> Rates charged by the Peoples' Bank of China for Loans per 1000, per month.

(1) State owned industries	4.545
(2) State owned trade	6.9
(3) Marketing and Supply Co-operatives	6.3
(4) Industrial Co-operatives	4.2
(5) Independent Peasant	10
(6) For Permanent Improvements (3 to 5 years)	7.5
(7) Private Industries	9 to 16.5
(8) Private Commerce	13 to 19.8
(9) Independent craftsmen	9 to 13.5
(10) Jointly operated Industries	4.8 to 14



tions of the credit mechanism of a socialist society in the making.

The Peoples' Bank made special effort to assist the peasants by lending freely for current and long-term needs. From 1949 to 1954, 4100 million yuans or about 833 crores were made available for this purpose for the development of agriculture. The loans are granted for minor irrigation projects, purchase of pumps, water wheels, cattle, sprayers, fertilizers and agricultural improvement in general.<sup>1</sup> The loans are granted according to needs, the rates for long term are lower than short term, they are repayable in easy instalments, the dues are reduced or remitted in case of calamities, and what is of special significance assets of the borrower have no bearings upon his eligibility or the amount of loan granted to him. The agricultural co-operatives are being given preference in the matter of loans, but the individual peasants also have been helped liberally and the loans application had to be endorsed by their mutual aid team, the peasants association or the Hsiang government. No security was asked for and given before the loans were granted, each independent peasant is on his honour to use the loan for the purpose for which it was granted, and his team, the peasants' association or the Hsiang Government was responsible for preventing misapplication of the loan money. Importance of rural credit in more intensive development of agriculture was fully realized and the Peoples' Bank, in pursuance of the state policy. Its staff directly contacted the peasants, with the help of the experts and the various corporate units assessed the needs and makes finance available according to needs. The Peoples' Bank was thereby

<sup>1</sup> In 1953 the People's Bank rural credit loans amounted to 870 million yuans. The following benefits accrued to the peasants by the utilization of these funds:— 492,000 minor irrigation works; 610 pumps, 230,000 water wheels (20,000,000 million mous of land were irrigated through these measures.) Horse pulled agricultural implements 3,800, new implements 175,000, sprayers 24,000, cattle 724,000, fertilizers 2,800 million tons.

80 p.c. of the funds were distributed among poor peasants and 20 p.c. the middle peasants. This fact is particularly significant and illustrates the incidence of benefits through the development schemes.

brought into close contact with the masses and knew the vital facts of the situation from direct experience.

Since March 1955 the function of financing and development of agriculture has been taken over by a new institution—the Agricultural Bank which has since almost entirely relieved the Peoples' Bank of the direct responsibility for providing funds for financing agricultural development. The Agricultural Bank provides funds for the Agricultural Co-operatives for (a) local irrigation and drainage work (b) buildings, farm implements and purchase of draught animals and (c) purchase of seeds, fertilizers etc. Individuals, whether members of the co-operatives or not, are granted loans as a rule for a period of one year for (a) meeting consumption requirements (b) obtaining raw materials for subsidiary occupations and (c) purchase of small implements. They are also given loans, if necessary, for taking shares in co-operatives. The State farms are also financed by Agricultural Bank generally, by long-term loans which are granted for five to ten years for provision of equipment, buildings, livestock and irrigation. They are also given short-term loans for working capital. With the growth of credit operations for agricultural development a specialized institution was needed; and the Agricultural Bank is performing this function with increasing confidence and competence. The old Farmers' Bank died in 1949. The Agricultural Bank is an entirely new institution and in the new context has significantly different functions.

Though the Peoples' Bank had been dealing directly with the peasants for meeting their credit needs, the credit co-operatives are now being developed with greater vigour and speed and are intended to play a more important part in the expansion of facilities for rural credit. The rural credit co-operatives came into existence by 1932. They, however, during the war and post-war years suffered badly owing to neglect, disorganization of rural economy and what is worse, persecution; and in 1949 the movement was practically dead. In the first few years the Peoples' Bank relied upon direct assistance for meeting the credit needs of the peasants, but now, as stated above, it has been decided to channelize the grant of credit funds through the credit co-operatives as far as possible, mo-

bilize rural savings through them and make a direct attack on usury ('the heaviest millstone' in the words of R. H. Tawney, 'round the neck of the Chinese farmers'), which, though greatly reduced, is still a problem in rural areas. The Marketing and Supply co-operatives had in some cases their rural credit departments and elementary form of credit co-operation was also being used by organizing mutual aid and credit teams; but the credit co-operatives are meant now to be the normal channels for expanding rural credit, and it is planned to develop them, as stated above, with greater earnestness.

In June 1954, there were 23,867 credit mutual aid teams, 3608 co-operative departments of the Marketing and Supply co-operatives and 24416 credit co-operatives. It was planned to increase the number of co-operatives to 100,000 by the end of 1955 and provide a co-operative for every Hsiang in three years.

In 1955, 160,000 rural credit co-operatives were actually functioning. They assist production specially by meeting consumption requirements and help peasants to join the Agricultural (producers') co-operatives, to eliminate usury and to work as agents of the Agricultural Bank. The Credit Co-operatives have also been assigned the function of mobilizing rural savings by receiving deposits and are reported to have achieved a large measure of success in this respect. The Agricultural Banks give technical assistance and guidance to the credit co-operatives. The funds of these co-operatives consist of (a) advance by the Peoples' Bank or the Agricultural Bank (b) share capital and reserve of the co-operative and (c) local savings; and it is expected that these co-operatives would increasingly be able to build up their own resources, i.e. share capital, reserves and local savings to finance the current needs of the agriculturists. Formerly the Peoples' Bank and now the Agricultural Bank besides providing funds assist the rural co-operatives by training their staff and the state has exempted them from taxation. These co-operatives, like all other co-operatives, are managed by the elected boards of directors and have boards of supervision. The credit co-operatives are closely linked with the producers' and trading co-operatives; they

advance loans by placing credit at the disposal of the Marketing and Supply Co-operatives to provide improved seeds, fertilizers, implements and other means of increasing agricultural production. The same procedure is also commonly adopted in granting productive loans to the individual peasants i.e. the latter can satisfy their needs for production goods by acquiring them from the trading co-operatives on credit supplied by the credit co-operatives. They are in fact intended to be the fourth wheel of the rural co-operative coach, the trading co-operatives, the agricultural producers' co-operatives and the handicrafts co-operatives being the other three, and all of them are meant to move in step with one another. They are the means through which rapid socialist transformation of agriculture is to be achieved.

There are four other banking institutions which perform specific functions and function under the direction of the Peoples' Bank. The Communication Bank, which, as stated already, was founded by the Manchus in 1907 and later in theory functioned as an industrial bank, continued to discharge the same function until October 1954; but it mainly finances and supervises the jointly operated enterprises, ensures that the allotted funds of the latter are used for the purpose for which they were granted and otherwise there is no infringement of public interest or deviation from the main principles of public policy. It also receives the profits due to the state from the jointly operated enterprises, and takes custody of their depreciation funds, reserves and deposits. It grants long and short term credits to these enterprises, and charges the same rates of interest as the Peoples' Bank. This institution has still a few branches in foreign countries which do foreign exchange and ordinary banking business. It has only 17 offices including the head office in Peking, its capital is raised by issuing 600,000 shares, of which 520,000 are held by the state and 80,000 by private share-holders. There are 25 members of the Board of Directors and 9 of the Board of Supervisors of whom 13 directors and 5 supervisors are nominated by the state and the rest are elected by the shareholders. The manager and deputy managers are appointed by the state, and all major decisions need the approval of the Peoples' Bank

and the State Council. Since October 1954 a new institution known as the Peoples' Construction Bank has been formed which provides long-term finance only to the state-owned commercial and industrial enterprises. Its capital and funds for granting long-term loans for economic enterprises and construction are allocated in the state budget and disbursed through the Construction Bank. The latter also supervises the utilization of these funds and receives reports for security from the undertakings; and if the analysis of the information contained therein, shows that the considerations of economy are being disregarded in practice or are not receiving their due attention, the progress is slack, there is lack of co-ordination within the firm and among the firms, the targets have not been reached or otherwise in organization or administration the state directives are not being followed, it brings the matter to the notice of the Peoples' Bank and the State Council, indicates the measures that need to be taken to remove the shortcomings revealed by the scrutiny of the reports of inspection of accounts and administration; and with their approval directs the enterprises concerned to take the necessary corrective measures and sees to it that those measures are in fact taken in good faith. The Peoples' Bank, the Communications Bank and the Construction Bank among themselves are responsible for financing the state-owned, jointly operated and the co-operative industrial and commercial enterprises on both long and short-term basis, their interest rate structure is determined by the state and in the discharge of their functions, they are guided by and act upon the directives of the state policy. Their whole technique is intended to provide a flexible and effective mechanism of transacting financial business of the state and is being developed and modified in the light of actual experience.

The two other banking institutions, which have a place of their own in the new banking structure, are the (1) Jointly operated Commercial Bank and (2) the Bank of China. Since October 1952 all private Joint Stock banks have either closed down or joined a new institution which is assigned the duty of doing banking business for private industrial and commercial enterprises. There are at present only three privately-

owned commercial banks in China, they are owned by the overseas Chinese and are *doing only business* for them. In the jointly-operated Commercial banks are amalgamated 60 private commercial banks and the old indigenous banking houses. It has only 15 offices, including the head office in Peking, but a large Board of Directors of 103 members of whom only 27 are the state nominees and the remaining 76 are elected by share-holders. The state's share in the capital of this bank is 30 per cent and the rest has been contributed by the firms which have been merged in it. It receives deposits, and grants loans both for investment and working capital to jointly operated firms, but as it has only 15 offices, it cannot assume the entire responsibility for financing these enterprises. It does its work under the direction of the Peoples' Bank and charges the standard rates of interest. The fourth banking institution, which has survived the hard times and the fundamental changes that have occurred, is the Bank of China. It was and now is a jointly-owned enterprise, the state owns 400,000 shares and 200,000 are privately owned. It has now thirty offices, mostly in foreign countries and 3000 employees. The proportion of the state appointed and privately elected directors and supervisors and their number are the same as in the case of the Communications Bank. The Bank of China specifically is assigned the function of transacting foreign exchange business in non-socialist countries in accordance with the general principles laid down by the State Council. The Bank of China is also 'led' by the Peoples Bank, i.e. it has to work under its direction and no policy decisions can be taken without its full knowledge and approval. These four institutions are really specialized agencies of the Peoples' Bank and carry out its purposes and general instructions.

Stabilization of prices since March 1950 is one of the major achievements of the new economy of China, and it is important to know how stability of prices was attained and is being maintained. It has already been stated that production, distribution and consumption in the new economy are being determined by prices *only within* the general framework of major policy decisions and prices not an autonomous factor in the working of the economy. An autonomous price mecha-

nism is obviously incompatible with the establishment and development of a planned economy. Stability of prices was, still is and has to be a basic aim of economic policy of the state as without it economic yard-stick, i.e. currency, cannot have any function or meaning; and in a planned economy, which essentially must measure its results, regulate its working and project its activities in real terms, it is all the more essential that its measuring rod should be dependable and waywardness in its behaviour should, as far as it is humanly possible, be eliminated. Stability of prices, however, in a planned economy even less than in a self-regulated economy, should not mean their fixity for prices of goods and services, must reflect, express and, within the limits indicated by the very nature of prices, promote the dynamic purpose of the economy and fulfil its essential objects. They must therefore be varied from time to time, both as a whole, i.e. the price level and in specific cases of individual commodities or groups of commodities. The variations, however, must not distort the working of the economy, upset calculations made on a rational basis and in the interest of the community or bring factors into play which are outside or contrary to the purposes of the plan. They, in other words, must be under control, serve as a reliable basis of social calculus and permit individuals, within the social framework, to indicate their preferences and use them to influence though not determine the operations of the productive apparatus. In China stability of prices became the imperative need of the situation existing in 1949, because the nightmare of hyperinflation had to be dissipated by purposive action; but even apart from it, it is, as stated above, essential that erratic fluctuations of prices should, as far as possible, be stopped in order to prepare a plan of development and transformation and put it into force without causing or inviting any major disturbances. The considerations are known to the men in authority in China, are clearly appreciated by them and have been made the basis of formulating and administering their price policies.

Success, which has been achieved in the stabilization of prices may be indicated by citing some facts. The latter are needed, in support of the view that prices have in fact been

stabilized and also to illustrate the extent and the manner of their stabilization. Index number of prices since 1949 are available; but it is not known how they are constructed and continuous separate indices of the prices of manufactured commodities, capital goods, consumer goods, cereals and other food articles, industrial and material, imports and exports and of the cost of living are not available; and it is, therefore, not possible to analyse prices to assess the variations in the general price level and the price levels of different groups of commodities in their bearing upon the question of stability of prices in its different aspects. The general wholesale price index for the whole country, taking March 1950 as 100 was 85.4 in December 1950, 96.6 in December 1951, 90.6 in December 1952, 91.7 in December 1953 and 92.3 in December 1954; but if December 1950 is taken as the basis and equal to 100, the price index rose to 115.2 in September 1952 and declined to 113.8 in December 1951; and the wholesale price index, with also December 1950 as 100, in six main cities the price of cereals rose to 113.2 in December 1951, of subsidiary foods to 106.3, of cotton yarn and cloth to 119.1 and of industrial equipment to 121.3. The Shanghai price index, with December 1950 as 100, was 116 in December in 1951, 108 in December 1952, 107 in December 1953 and also 107 in September 1954. From these figures, taking them as they are, it appears that there was a rise in general prices of 15 to 16 p.c. from December 1950 to September 1951, but the prices declined thereafter and since December 1952 they have been maintained at about the same level. The rise of general prices in 1951 was due to the Korean war, but since then a large measure of stability has been achieved and it appears that the general level of prices has fallen a little as compared with March 1950. Owing to the limitations of the statistical data in China these indices are to be taken as illustrative of the general stability of prices but do not measure their general level or its variations.

Supplementary data have, therefore, to be examined and evaluated to examine the view that, generally speaking, prices have been stabilized in the new economy. In 1949 in order to revive confidence two units were instituted; one was known



as parity unit and the other wage unit.<sup>1</sup> The parity unit was instituted to give stable value in real terms to current and savings deposits, and any decline in real purchasing power of currency was to be offset by the proportionate increase in

<sup>1</sup> Parity and wages units were, as stated in the text constituted to restore confidence in the currency and create a sense of security. The Parity Unit was to be used to give the depositor the assurance that the savings would not lose their purchasing power by depreciation of currency and wages unit was meant to be used to give confidence to the recipients of income that their income would have a stable purchasing power. The units were composed of essential commodities in certain specified quantities and were evaluated in current prices, and deposits were repaid and incomes paid on the basis of the values assigned to these units according to the prevailing prices. Composition of the Shanghai Parity Unit for example was:-

Rice husked middling	1.55 catties
Peanut Oil	1.00 Oz.
Cooking fuel	12.00 Oz.
Cotton cloth (dragon head brand)	1.00 foot

Composition of the Shanghai Wage Unit was:-

Rice husked middling	0.80 catty
Rice husked middling	0.80 catty
Cotton cloth (Dragon head brand)	0.20 foot
Peanut oil	0.05 catty
Salt	0.02 catty
Cooking fuel	2.00 catties

Each area had its own units based upon current prices of the area. The Peking wage unit for example was composed of:-

	Quantity	Current price (per catty)	Value	Per cent
Flour	0.32 catty	1920	614.4	25.4
Millet	0.336 catty	1300	436.8	18.06
Corn Flour	0.144 catty	1100	158.4	6.54
		(per foot)		
Cloth	2 foot	2850	570	23.6
Salt	0.03 catty	1100	22	0.9
Cooking fuel	2 catties	1501	300	12.5
Seasum oil	0.05 catty	6700	315	13.5
			<hr/> 2416.6	<hr/> 100

In the Peking Unit the standard qualities, converted at current prices give its value for November 1954 which was 2416.6 old yuans but for the payment of wages in Peking 2453 yuans was taken as the minimum. Wage units, as stated in the text, were still in use, though parity units have been discontinued. According to a Resolution of the State Council passed in June 1956, wage-unit has now been abolished.

the nominal amount of deposits at the times of withdrawals. The parity unit has been discontinued since July 1953. The quotations of the Shanghai and Peking parity units are given in the following table:—

*Parity Units quotations in Shanghai and Peking*

	January 1951	July 1951	January 1952	July 1952	January 1953	May 1953
Shanghai	4,965	5,409	5,452	5,520	5,371	5,479
Peking	5,216	5,511	5,841	5,682	5,902	6,005

These quotations indicate some rise in Peking of the prices of the basic commodities of which parity unit was composed, but generally speaking they can be taken to mean that the prices in these cities were more or less stable during this period. Wage unit was instituted to stabilize the real purchasing power of incomes, and as it was used until June 1956, and incomes were fixed in wage units, they are a better index of the stability of prices in this period. The composition of wage units allows for local differences, but essentially it is the same all over the country and the quotation of wage units can be utilized to assess the general position in regard to the stability of prices. The following table gives quotation for 7 largest cities of China, which are far apart from one another.

*Quotations of Wage Units*

	<i>Peking</i>	<i>Shanghai</i>	<i>Tientsin</i>	<i>Chinchow</i>	<i>Hankow</i>	<i>Canton</i>	<i>Chungking</i>
Dec. 1951	2346	...	..	2365	2258	2820	...
Dec. 1952	2328	2531	2387	2266	2165	2726	2247
Dec. 1953	2400	2611	2465	2361	2213	2857	2224
Dec. 1954	2600	2350	2305	2305	2216	2893	.

It shows that since December 1951 the maximum variations in any one city and the maximum variations among the seven cities in particular years were very limited, the former being less than 300 and the latter about 600 and most of the differences were really less. These quotations being in old yuans (300 yuans were equal to less than one anna in Indian currency), these differences, both in time and space, may well

be taken as insignificant. If these quotations were given in the new yuans, they would be 3 fens in the case of individual cities and 6 fens in the case of all cities in any particular year, (100 fens, as stated above, make a yuan). These quotations are really rough indices of the cost of living and are a measure of stability in real purchasing power of currency in terms of necessities. If the cost of living indices in Amritsar, Delhi, Allahabad, Calcutta, Madras, Bombay and Nagpur from 1951 to 1954 showed only an increase or decrease of one anna per day and in the difference in the cost of living in these cities were not more than 2 annas per day and in most cases less, the stability of prices of cereals, oil, salt, cloth and fuel would be comparable to the stability in the prices of these articles in China. These wage units were, as stated above, the basis of the payments of incomes until June 1956 on a nation-wide basis and quotations for them were of great practical importance. The indices of general prices taken with the quotations of the parity units and the wage units make it quite certain that the prices of the essential commodities were in fact largely stabilized, and the achievement having been realized in a period of great stress owing to the Korean war, increasing expenditure on defence and large scale investment in construction and development, it is rightly taken by the people in China as a good measure of the efficient working of the new economy in the interest of the masses.

Two other supplementary quotations of prices are also given to show how the inter-relations of the prices of the various commodities of the prices of everyday use to illustrate the stability of price structure and not only of price indices. The Hankow prices of a retail departmental stores from 1951 to 1954 of four commodities of everyday use<sup>1</sup> i.e. towels, socks, rubber shoes and cloth also point to the same conclusion, only

<sup>1</sup> Prices (in old yuans) of Towels, Socks, Rubber Shoes and Cloth in Hankow from 1951 to 1954.

	Towels (per dozen)	Socks (per dozen)	Rubber Shoes (per dozen)	Cloth* (per foot)
1951	99,710	70,615	316,805	3,257
1952	97,922	72,627	316,540	3,033
1953	96,955	70,435	340,100	2,985
1954	89,800	69,800	368,800	2,900

\* Average for all varieties.

the prices of rubber shoes increased by 28,000 i.e. less than 3 new yuans, per dozen of rubber shoes since 1951 and, while the prices of towels decreased by 10,122 per dozen, of socks by 2,827 per dozen and of cloth by per foot from the highest point to December 1954. Rise in the prices of rubber shoes was 2,334 per shoe which is less than one quarter of one new yuan and the prices of the other three articles had slightly fallen. These quotations illustrate the position in respect of the prices of these and similar articles not only in Hankow, but also of prices in other parts of the country; for the same degree of stability was achieved in most parts of the country. The other series of quotations relates to the rates of exchange of three important cash crops, i.e. cotton, tobacco and pea-nuts in 1954 in terms of staple food grains in different parts of the country which also indicates, allowing for the magnitude of China's area, a large measure of stability in the inter-relation of prices.<sup>1</sup> Price indices of staple grains for 1953<sup>2</sup> of the 7 largest cities of China also re-inforce the conclusion that stability of prices in China in a very large measure was in practice established and made the working of her economy

<sup>1</sup> Rates of exchange between a catty of cotton, tobacco or pea-nuts and staple grains in 1954.

Cotton		Grain	
Wheat Growing Area	1	6.75 to 8 catties	
Millet Growing Area	1	7.03 to 8.25 "	
Rice Growing Area	1	7.25 to 8.25 "	
Tobacco			
Honan	1	4.7 catties	
Shantung	1	5.24 "	
Anwhie	1	4.29 "	
Kwelchow	1	5.3 "	
Peanuts			
Hopei	1	1.83 "	
Shantung	1	2.274 "	
Honan	1	1.688 "	

<sup>2</sup> Price index of staple grains May 1953 April 1, 1953—100

General Index	100.3
Tienstin	100.37
Hankow	101.45
Shanghai	100.07
Canton	100.37
Sian	100.79
Shenyang (Mukden)	100.00

smooth and orderly and provided a reliable calculus—i.e. 'yardstick' for its planned development.

Stabilization of prices in China is of great interest but it is a matter of greater interest to know how this result has been achieved. It is not possible to deal with this point at any length; but the more important reasons may be briefly explained. They are:— (1) General sense of security has been created and the people have been given the confidence that the new state is stable, can meet all internal and external contingencies and the country is being administered primarily for the well-being of the masses. (2) The economy has been largely integrated, its direction of development has been clearly settled and its production, both industrial and agricultural, has been very considerably increased. (3) The state budgeting system has been well organized, public revenue and expenditure are balanced (as a matter of fact surplus budget has become the rule) and resort to the printing press as a source of capital formation or revenue, i.e. deficit financing, is being avoided. (4) Balance of currency and commodity circulation is held to be of fundamental importance and administration of credit and currency policies are consciously regulated in order to achieve this balance in actual practice. (5) State and co-operative trading is decisive in the economy of the country, stocks and distribution of commodities are largely under public control and their prices are fixed, not by 'free play of economic forces,' but the principles of price determination which in the main are clearly known and are being applied with increasing degree of success and clarification of their relation to the whole economy<sup>1</sup> Since 1953 the introduction of 'the planned system of purchase and supply' i.e. procurement and rationing in urban and rural area has given the state wider measure of control over the price structure of the

<sup>1</sup> For example in the foodgrain budget of the year July 1955 to June 1956 the state acquired 43.94 million tons of foodgrains (including the quantity received through payment of agricultural Tax in kind) out of the total output of 143.99 million tons of husked and milled food grains; and the quantity was utilized as follows:— sale in rural areas 17.72 million tons, sale in urban areas 20.62 million tons and export 1.48 million tons

Source - Report of the Indian Delegation on the Agricultural Technique and Planning, Page 130.

economy. (6) In the production and management of the state-owned enterprises the practice of planned wages, costs, profits and prices is being developed with growing confidence and success and is imparting increasing consistency to the price structure. (7) Rigidity in prices is being avoided and planned adjustments are being made to co-ordinate the price system to the basic facts of the economy and changes in public policy and (8) lastly the development of communications is expanding the circulation of commodities; they are being distributed according to needs and this result is being achieved without large differentials in the prices of commodities in the different areas. The commodities move not because the difference in their prices and therefore profits of commerce necessitate these movements, but because these movements are planned and directed by the public authorities and in the public interest. The new economy has still some way to go before it fully develops and applies price technique suited to its changing requirements and broadening objectives. Its achievements in this respect so far, however, are, as stated before, creditable and show growing understanding of the essentials of price policy of an economy in the process of socialist transformation and increasing efficiency in its administration.

The present currency, credit, banking system of China has been developed out of the old system and in accordance with the needs of the concrete situation; but in its purpose and mode of working it is being organized and developed with a view to fulfilling the needs of the future. Being a part and instrument of new economy it has to share its animating purpose, keep pace with its development and realize its ends. It has great importance as an instrument and has to be perfected as such, but it does not and cannot determine anything of importance or set the pace; it has to be a good servant of the economy and cannot be its master.

## CHAPTER XIII

# PUBLIC FINANCE

PUBLIC FINANCE in China also has, owing to the transformation of national economy, undergone fundamental changes. The evils due to maladministration of finances have been remedied, tax-evasion has been largely stopped, assessment and collection of taxation have been greatly improved, the system of taxation has been simplified and integrated, the yield of taxes and tax revenue as a whole have been expanded and administration of taxes has been made honest and efficient and well geared for its tasks. In respect of public expenditure economy has been enforced, waste largely reduced, misappropriation and misapplication of public funds practically eliminated, budgetting made orderly and its provisions enforced with skill and determination, and the whole standard of financial administration raised to a much higher level by reorganization, training of the personnel, proper allocation of authority and responsibility and adequate supervision. In other words, dishonesty, inefficiency, lack of co-ordination, laxity in the performance of duties, gross abuse of financial authority, inequity in the levy, assessment and collection of taxation and dissipation of financial resources through bad budgetting, lack of understanding and foresight and disequilibrium between revenue and expenditure and ill considered and even thoughtless allocation of funds were the problems which the new state had to deal with immediately as a bad legacy of the past, it has solved them in very large measure, the new financial apparatus is a good and dependable machine of the administrative system and can be counted upon to carry out public decisions and produce results.

The changes, however, are a part of the higher efficiency and integrity of the present administration and do not imply or indicate any functional changes in the financial system. These changes would have had to be made if the intention had merely been to restore the old economy and make it work

efficiently and well. The fact that from the very beginning it was known and decided that an entirely new economy had to be introduced and developed by stages, made it essential that in theory and practice the financial system should be integrated with it, become as a matter of fact, one of the most important vehicles of the new social policy, express and implement its inner purposes, acquire new functions suited to and needed for the fundamental transformation of the national economy and develop the technique through which they could be performed with an all pervasive understanding of new social ends and their bearing upon the objective, organization and working of financial administration. More significant than the great improvement, which has taken place in the assessment and collection of taxes and allocation, use and disbursement of funds, is that the present financial system has already played an important role in the inauguration and development of the new economy and is more and more becoming an organ of socialist transformation. It is not, and was never intended to be, merely a revenue collecting and allocating agency; it is really a part of the core of the new economy and, as stated above, one of the most important instruments through which it works and fulfils its purposes. Public finance in all countries has acquired a broader basis, is now related to working of the economy as a whole, is administered to offset some of its more serious shortcomings like unemployment and industrial fluctuations and mitigate, if not remove, the causes of its organic disequilibrium. These functions e.g. compensating expenditure, variations in the incidence and rates of taxation and deficit financing are in kind different from the functions which a system like the Chinese financial system has to acquire and perform in the national economy. In the latter there is no intention to provide corrective of the economy in operation or proceed from precedent to precedent to broaden its basis and widen its scope; it is primarily intended to bring the new economy into full working order, to execute and even enlarge its decisions to keep pace with its rapid development and transformation. The difference is obvious and it should not really be necessary to point it out with any emphasis, for revolutionary public finance must necessarily



blaze new trials, carry out the purpose of the revolution further and realize its objects. This difference, however, has to be specifically indicated and clearly brought out because owing to the same terms being in use and the language of finance being the same all over, the facts that the contents and essential purpose of public finance in an economy, which is a child of revolution and owes complete allegiance to it in its concepts and administration, are and have to be entirely different from the contents and purposes of the financial systems of the countries in which revolution is either discarded or is a nebulous aspiration to be realized in a distant future, or is being professedly carried out on the assumption of 'the inevitableness of gradualism' in social transformation. The financial system of China, i.e. tenets of public finance, aims and methods of its administration and its relation to the national economy are, it may be repeated, revolutionary in origin, content and operational methods and measures and conditioned by this cardinal fact.

The Ministry of Finance, which is in charge of the new financial system, is the seat of its authority, the source of impulses and the centre from which it, i.e. the new financial system, is ramified into the working of the national economy. The Peoples' Bank of China, which has to work in close co-operation with it, is directly under the States' Council, i.e. the cabinet, but all financial bureaus of the Provinces, the centrally administered cities and the financial organs of the state corporations, economic enterprises and and public organization are under its general surveillance and the administrative bureaus of finance directly under its supervision and control. In an economy, which is being rapidly transformed into a socialist economy public finance necessarily becomes a continuously expanding activity and the line of delimitation of its sphere has to recede under pressure. As stated below, the proportion of the tax revenue to the total state revenue has been decreasing in the last five years and taxation receipts derived from taxation of public undertakings have been relatively speaking, increasing in importance. That in itself is a matter of fundamental importance; but even more important is the fact that, as pointed out below, the pro-

portion of public outlay on economic construction and development has been increasing rapidly and it now is the most important category of public expenditure. That means (1) that economic functions of the state are, in their magnitude and effect, its most decisive functions and give it a positive place and influence in all economic developments. (2) public finance is by far the most important source of capital formation in the country and saving is as important a function of the state as spending, and on that account disposable income of individuals is mostly needed and utilized for meeting current needs. With the expansion of social insurance to cover all risks from 'cradle to grave,' saving is necessarily reduced to a secondary position in private economy of the individuals and is not socially necessary. The position has not been reached as yet in China because of the limited coverage of social insurance; but for capital accumulation individual savings, though not insignificant, are not a determining factor and even those who have a capacity to save, do not carry any special weight, much less exercise, any power in the national economy. The Ministry of Finance has to husband public revenues, exercise vigilance in public expenditure and maintain and enforce high standard of economy; but as its receipts are mostly derived from the earnings of public enterprises and investment is the most important outlay, it has necessarily a vital stake in economic administration of all public undertakings, has to uphold high standard of efficiency, reduce and standardize costs and make business accounting really social accounting in the best sense of the word, i.e. reduce not merely outlay of money but conserve human capital, safeguard social well-being and yet reduce the cost of production in labour, material and capital equipment. The Ministry, besides balancing revenue and expenditure, has also to devise methods by which (a) revenue and expenditure of economic enterprises and industries can be balanced (b) total income and outlay of the community are in equilibrium, and in the distribution of income between investment and consumption and among different sections and strata a proper balance is maintained and (c) there is a balance between circulation of commodities and circulation of cash, a function, which has, as stated in the last chapter, been

assigned to the Peoples' Bank of China but the Finance Ministry cannot but be intensely interested in its proper discharge. In other words, the Finance Ministry is not merely a jealous guardian of public revenue or watch dog of the public interest, it has to take the whole economy in its purview and make its efficient working its primary concern. It being in a position to achieve the ends of social justice or well-being directly through the working or changing the economy, is not pre-occupied with taxation as a measure of reducing or redressing economic inequalities or ending other social inequities. It has to prevent emergence of inequalities rather than take palliative measures to reduce them; and though indirect measures for achieving social ends are not ruled out, finance in the circumstances, in which it has to operate in China, is not and need not be an instrument of counteracting the anti-social trends of the economy but of realizing its primary social objectives. The Ministry of Finance is really the Ministry of Social Economy in its widest sense; and public finance is a means by which socialist transformation is, as an end, steadily kept in view in the working of the economy, its implications are fully worked out and in relation to all its aspects and any lapses from the standards necessary for its development are guarded against.

The pre-war financial system of China has been discarded so completely in the new economy, that it may appear that it now is only of historical interest. It is all the same necessary to describe it very briefly so that the changes that have taken place may be duly appreciated. The main heads of revenue and expenditure are given in the footnote.<sup>1</sup> Their analysis shows the position in the year just before the out-

<sup>1</sup> BUDGET FOR 1936-37 (\$ (Chinese) millions)

Receipts	p.c. of tax revenue		expenditure	% of ex- penditure	
Customs	304	35	Civil Expenses	323	32.5
Salt	189	22	Capital for Govt. enterprises	96	9.7
Consolidated Revenue	133	15	Military Expenses	322	32.5
Economic Enterprise	31	4	Debt and indemnity	239	24.2
Other Receipts	208	24	Other expenses	11	1.1
	<hr/> 865	<hr/> 100		<hr/> 991	<hr/> 100
Loans	125				

break of the war. The total revenue fell short of expenditure in 1936-37 by \$ 125 millions or 12.6 of the total payments and deficit had been the rule ever since the Nanking Government consolidated its position; it was 23 p.c. in 1928-29, 17.3 p.c. in 1929-30, 28 p.c. in 1930-31 and 17.4 p.c. in 1931-32, 12.2 p.c. in 1932-33, 17.6 p.c. in 1933-34, 20.8 p.c. in 1934-35, 7.3 p.c. in 1935-36 and, as stated above, 12.6 p.c. in 1936-37. Among sources of revenue the most important were customs, salt and excise which accounted for nearly 35, 23 and 15 p.c. respectively or 73 p.c. of the tax revenue, income from economic enterprises was 4 p.c. and from income tax, which is included in the other receipts, was \$ 5 millions or a little over half p.c. Military expenditure accounted for 23.5 p.c. of the total expenditure, debt and indemnity services 24.2, investment 9.2 and civil administration 32.5 p.c.; civil expenditure included expenditure on culture \$ 4.5 millions, and economic construction \$ 6 millions, i.e. less than 5 and 6.66 p.c. respectively; and most of the civil expenditure was of a routine character and devoted to the maintenance of the ordinary administration. The period 1928-29 to 1936-37 was, in spite of the anti-communist campaigns, a period of comparative calm and yet economic development and social services hardly received any attention. The two most important sources of revenue, i.e. customs and salt, were mortgaged for debt services both of foreign and domestic loans and interest and capital repayment were the first charge on their receipts. It is known that graft, corruption and misuse of funds were common at that time and the standard of financial administration, both in regard to the collection of revenue and the disbursement of funds, was very low, though compared with the war and post-war years. The position was something to look back to in later years. The budget speech of Mr H. H. Kung, Minister of Finance was full of bold declarations with regard to the future, and it is possible some of these at least partially would have been acted upon; but the war put an end to any possibility of change for the better and brought with it degeneration in the most extreme forms which ended in the final debacle of 1949.

During the war expenditure kept on mounting at an unheard-of rate; it is estimated in 1945 to have been 190 times

of what it was in 1937; owing to occupation of the territory and disorganization of administration the collection of revenue declined enormously. In 1941, for example, only 14 p.c. of customs revenue could be collected in unoccupied China, reliance had to be placed as a matter of necessity on domestic and foreign loans and of course the issue of currency for meeting the war emergency, the measures like centralization of finance and land tax in 1941 were taken but were of no avail, inflation kept on increasing at a hectic rate, and in spite of the extreme gravity of the situation, power politics, hatred of the communists and the degenerate character of administration made it impossible to rally the forces of resistance and regeneration, and at the end of the war, the country was, as is very well known, in a state of moral, more than financial, bankruptcy. In the post-war period the position became much worse, all reserves, financial, material and moral, were exhausted in spite of the stupendous U.S. aid of 4 billion dollars, and when the nemesis came, the financial collapse of the country was only an index and a measure of the collapse of the economy and administration. Financial reconstruction of the country had necessarily to be made a part of political and economic reconstruction, but it also presented problems of its own which had to be competently handled. It took nearly two years to salvage the situation, but by the end of 1951 it was well in hand, in 1952 it was possible to look ahead and make plans for the future. Rehabilitation of finances, which was both a cause and result of economic rehabilitation, was undertaken on lines, which were well chosen, and prepared the way for finance becoming one of the most constructive factors of the new economy in later years. In the contrast between the old and the new there are, of course, intangible factors, which elude statistical treatment; but the analyses of finances of 1952 to 1955 given in the following paragraphs brings out the striking and significant changes which have occurred in these four years.

Figures of revenue and expenditure for 1952 to 1955 under principal heads in the footnote on page 331, show the main changes that have occurred since 1952. In 1950 and 1951 the position was, from financial standpoint, not secure, in both

years deficit budgets were framed, though in fact in 1951 slight surplus was realized. Since 1952 all budgets have been surplus budgets and the actual surplus has every year been larger than the budget surplus. Deficits had been the rule, as stated already, in China before the war; and during and after it larger proportion of expenditure was covered by borrowing and inflation. The merits of balanced budgets may, often have been, overrated, but surplus budgets, in the context of the history of China's finance, do mean a real achievement, the importance of which is all the greater because military expenditure during this period has increased by 68 p.c. and expenditure on economic construction has nearly been doubled. During this period out of the total revenue of nearly 105 thousand millions, loans including Soviet loans, account for about 7,500 million or one-fifteenth of the total receipts. Surplus of these years has been utilized to provide revolving funds for local government, repayment of loans borrowed from the Peoples' Bank in the first two years, contribution to special funds and revenue reserve. Accumulated surplus for these years amounted to about 7,150 million yuans, i.e. altogether it was almost equal to the amount raised by foreign and domestic loans and the entire expenditure, which includes large appropriation for loans and credit, (e.g. in the 1955 budget there is a provision of 1,245 million yuans for this purpose or 4.18 p.c. of the total expenditure), was met from current revenue receipts. Savings drives through the sale of national bonds are an accepted part of

<sup>1</sup> Receipts from Main Sources of Revenue in China from  
1952 to 1955 (millions of yuans)

	Total Revenue	Tax Revenue	Receipt from Public Enterprises	Loans and credit
1952	18,928	9,622	4,658	251
1953	23,351	11,468	6,998	1,028
1954	30,754	13,218	9,961	3,059
1955	31,192	13,780	11,115	3,153

Public Expenditure in China under Main Heads  
from 1952 to 1955 (Million Yuans)

	Total Ex- penditure	Economic Con- struction	Social Service	Defence	Adminis- tration
1952	16,322	7,307	2,278	4,278	1,936
1953	23,350	10,352	3,480	5,225	2,397
1954	24,632	12,358	3,460	5,813	2,162
1955	29,737	14,188	3,850	7,193	2,241

economic and financial policy of the new state, and revenue is being raised and would continue to be raised by loans. China is, however, committed to the policy of balanced revenue and expenditure, and would regard deficit financing a lapse from sound socialist financial policy. It may be hoped that balanced budgets would not acquire the character of a fetish; but, as stated above, they have at present in China a meaning and importance of their own. Moreover, in a national planned economy, in which there are not or need not be any idle resources, or even if they are it should not be necessary to mobilize them by 'pump priming,' balance of revenue and expenditure is, from long-term standpoint, desirable and necessary and an index of not only the budgetary equilibrium but also of the whole national economy being essentially in a state of equilibrium.

Rapid increase of revenue from 18,928 millions to 28,049 millions (current receipt, i.e. minus balance carried forward which are included in the figures of total revenue in the table) or nearly 70 p.c. is an indication of (a) the success of financial re-organization and recovery (b) expanding production of industry and agriculture and growing prosperity and of course (c) the necessity of increasing public expenditure to carry out the plans of construction and development. Tax revenue, which has, throughout these years, accounted for about half of the current revenue, has increased from 9,622 million yuans in 1952 to 13,780 million yuans in 1955 or by a little less than half, but it has undergone a radical change in as much as (1) most of the tax revenue is derived from commodity and business taxes and a very high proportion of it is paid by the state-owned industry and commerce. (2) Customs and salt, the two most important sources of revenue before the war, have been reduced to a secondary position and (3) the only tax directly assessed is the Profit Tax on private industry and commerce, the income tax which, even before the war was of no importance, is not levied and there is no inheritance tax.<sup>1</sup> Direct contributions of the state-owned enterprises (i.e. profits and the amounts set apart for reserves) have increased from

<sup>1</sup> In 1936 it was proposed to levy inheritance tax, but the proposals could not be put into effect.

4,658 million yuans in 1952 to 11,115 million yuans in 1955, i.e. by about 137 p.c., their proportion to total current revenues has increased from about 23 p.c. in 1952 to 39 p.c. in 1955 and it is now nearly 80 p.c. of the total tax revenue. The position, however, has in this respect changed more fundamentally for ratio of the receipts realized from the state-owned enterprises in taxation, profits etc. to the total current revenue, as is shown by the table in the footnote,<sup>2</sup> has increased from 56.33 p.c. in 1952 to 69.47 in 1955, and if contribution of the co-operatives and the jointly operated enterprises is also added to the receipts realized from the state-owned enterprises, the proportion of the contribution of the publicly-owned undertakings to the total revenue becomes 76.22 p.c. or more than three-fourths of the entire current income of the state. During the same period the proportion of the yield of the tax on agriculture, which was through the ages the mainstay of public revenue, has fallen from 29.63 p.c. in 1950, to 17.08 p.c. in 1952 and 11.76 p.c. in 1955, and tax receipts from private enterprises from 32.92 in 1950, to 24.00 in 1952 and 10.7 p.c. in 1955. It is clear that in China public revenue is now mostly derived from the sources in the management and administration of which the state has the last word. Under these circumstances the distinction between profits and taxation becomes blurred, prices can and do have elements of taxation and profits can be so planned as to raise the entire amount needed for financing construction and development. Profits, however, have to be planned for individual firms or for an industry as a whole, and there have to be

<sup>2</sup> Percentage contribution to the total revenue of (a) state; co-operative and jointly operated enterprises; (b) Taxation of peasants; (c) Taxation of private sector.

	1950	1951	1952	1953	1954	1955
State and co-operative and jointly operated Enterprises (Taxation and profits)	34.08	49.35	56.33	59.79	70.56	76.22
Taxation of Peasants	29.63	18.17	17.68	14.56	14.23	11.76
Taxation of Private Sector	32.92	28.66	24.06	22.30	13.23	10.7



instruments of general application by which the balance between currency and commodity circulation can be, as through the turnover tax in Soviet Union, achieved and the necessary funds raised for socialist transformation. Experience would show to what extent profits and taxation can and should be used for allocating a part of national income for investment and construction; and if they have to be used in combination for this purpose, what the combination should be. The point which is of real importance at present is that in a planned socialist society, and even in a socialist society in the making, public revenue is the most important source of investment funds and capital formation is and has mainly to be a corporate activity of the community and not the sum total of decentralized personal savings of the individuals which, from the nature of things, cannot bear any direct relation to the aggregate amount needed for development or its distribution on a well-considered priority basis. Both taxation and profits of the state-owned industrial and commercial firms or the co-operatives are the most important channel of raising capital for economic construction, it has to be raised and applied in such a manner as to avoid fundamental disequilibrium in national economy and yet attain and maintain the required rate of development and for purposes vital to the future of the community. These considerations point to the conclusion that fiscal problems, i.e. the problem of raising revenue calls for a markedly different approach in the conditions at present existing in China, and understanding of this difference is needed to understand the essential changes which have taken place in this respect since 1951. Expansion of the total revenue by about 80 p.c. in four years is not merely a quantitative but qualitative change of profound significance and the magnitude of expansion is the result and not the cause of the great change which has occurred. That means, of course, that without the objective of socialism and the earnest efforts put forth to realize it in a short time this expansion could not have been achieved.

In regard to expenditure there are two significant facts (a) increase in aggregate expenditure and (b) its distribution. Increase of the expenditure by about 82 p.c. since 1952 is only a corollary of the increase of revenue or rather its main motive,

but its distribution is of greater importance. Expenditure on economic construction was 45 p.c. of the total expenditure in 1952, 44 p.c. in 1953, 50 p.c. in 1954 and 48 p.c. in 1955 and it increased by nearly 100 p.c. in this period. Expenditure on social services, i.e. culture, education and public health increased by 69 p.c. from 1952 to 1955, but its proportion has remained about 13 to 15 p.c. in these years. Expansion of education and public health is one of the most outstanding features of the development in China and is to be measured not only by the ratio of expenditure on these services but its aggregate amount. Expenditure on defence has, as stated already, increased by 68 p.c., but its proportion to the total expenditure has not changed materially, it was nearly 26 p.c. in 1952, 22.38 p.c. in 1953, 23.6 p.c. in 1954 and 24.19 p.c. in 1955. The only head of expenditure which has increased only by over 15 p.c. but whose ratio to the total expenditure has been reduced progressively, i.e. from nearly 12 p.c. in 1952, to 10.19 p.c. in 1953, 8.72 p.c. in 1954 and 7.5 p.c. in 1955 is administration, and this has happened in spite of the well-known improvement in the efficiency of administration and its being altered and developed to suit the needs and temper of the people. Apart from this, the distribution of expenditure has been broadly speaking more or less stable, but this stability has been achieved through the dynamics of development and not by adherence to set formulas or traditional allocation of funds. As stated before, a large scale investment mainly in heavy industry is now the outstanding feature of public finance in China and its distribution and supervision one of the most important functions of financial administration.<sup>1</sup>

<sup>1</sup> According to the budget for 1956 the estimated expenditure is

as follows	Total in Expenditure	
	million yuans	Per cent.
Economic Construction	16,055	52.22
Defence	6,143	19.98
Administration	2,411	7.84
Other heads	2,219	7.22
	<hr/> 30,828	

As compared with 1955 the expenditure on economic construction is expected to rise from 48 to 52.22 and on defence fall from 24.19 to 19.28 p.c. and on administration from 7.5 to 7.2 p.c.

Taxation, including the tax on agriculture, accounts for three-fifths of the total public revenue; it largely consists of taxation of commodities and sales. Taxes on commodities are levied on production and are assessed on the basis of (a) output (b) transfer and have to be paid by all individual firms, public and private. The rates vary according to the nature of the commodities e.g. 5 p.c. on pig iron, 10 p.c. on flour, 55 p.c. on wine and 66 p.c. on cigarettes, and primary and essential commodities are taxed at lower rates. Business tax is a tax on retail sales, is levied at the rate of one to 3 p.c. and has to be paid by all commercial firms including the state department stores and the co-operatives. Though the information with regard to the yield of these taxes and its growth is not available, it is known that yield is large, has been growing rapidly owing to the rapid expansion of production and sales and most of the tax revenue is derived from them. Tax on profits is assessed on realized profits, is graduated according to the amount of profits and varies from 5 to 30 p.c. It is levied on all private, commercial, industrial and jointly-operated enterprises, and owing to the rapid socialist transformation of commerce and industry is of diminishing importance. In China at present personal income tax and inheritance tax, as stated above, are not being levied. The reasons for not resorting to them have not been authoritatively stated, but it can be taken that they are inherent in the situation. Agrarian changes have abolished all large agricultural incomes. Large industrial and commercial incomes are subject to profits' tax and, through the advance of socialism, are being reduced and would soon be eliminated. High salaries and professional incomes have already ceased to be of any practical significance and millionaire model workers, writers and performing artists have, as far as is known, not yet made their appearance. Most of the incomes range from, as stated already, thirty or forty yuans to two or three hundred yuans per month, and are free from personal taxation because (a) they are not high and (b) if they are taxed, the scales will have to be raised for they are intended just to cover their expenses of maintaining the desired standard of living and provide moderate money incentives to harder and better work. Austerity

standards being the rule in China, income taxation as a means of reducing inequalities is not called for, and direct measures of realizing this object are being mainly relied upon. Urban properties still exist and presumably property incomes, possibly large in some cases, continue; but local property taxes, which are being levied and can, through steep graduation, prevent these properties from being used as a source of large incomes. In the course of time these also would have to be taken over by the state and rental incomes, as a significant element in the economy, eliminated altogether. Inheritance taxation is, in a period in which the course of events is reducing the possibility of any large bequests, also not called for in the context of the existing situation; and it may be hoped that the need for it will not arise. In a socialist society it is much more rational to prevent the accrual of large legacies rather than to tax them heavily when they do arise. Inheritance tax is not a cure but a palliative of social inequalities created by large properties being passed on to posterity and the latter cannot and should not exist in a real socialist society. Commodity and business taxation would remain a fiscal source of increasing importance and have to be developed and rationalized in the light of experience.

Customs and salt tax, which in 1936 accounted for, as pointed out before nearly 60 p.c. of tax revenue, are still being levied but their importance has been greatly decreased. They were, in the past, a part of the odious state of things created by unequal treaties, by foreign loans being secured on the revenues deprived from these taxes and by numerous opportunities of penetration, economic aggression and exploitation provided by foreign administration of these sources of revenues and fully utilized to the serious detriment of the interests of the Chinese peoples. These taxes now are a part of the new economy and have, on that account, been placed on an entirely different basis. Before the war 33 to 40 p.c. of tax revenue was derived from the custom duties. In 1954 it is estimated that the yield of these duties amounted to 450 million out of the total revenue of 26,236 million yuans i.e. about 1.7 p.c. The rates of the duties vary from 7.5 to 400 p.c. (24 grades) in the case of the countries which have no

trade agreements with China, and 5 to 200 p.c. (19 grades) in the case of those which have. Import of machinery, machine tools, chemicals and industrial raw materials, which are at present four-fifths of the total import of China, is either duty free or subject to very low duties. Tariffs both as a source of revenue and means of protecting home industries have, as explained already, now only a vestigial value. They may possibly, in certain circumstances, have some utility for negotiating trade agreements and as bargaining counters, but as all foreign trade is practically a state monopoly and the internal prices are fixed by the state, their utility even as such is more apparent than real. Tariffs are being levied, they are an item in the business accounts of the foreign trade corporations and separate head of revenue and the tariff schedules are receiving some thought and care; but it appears, it may be repeated, that all this due to their having been associated in the past with the denial of China's legitimate rights. As a source of revenue, even as it is, tariffs have lost their importance and they would probably before long be put on the scrap-heap of history. Increase of planned profits of the foreign trade corporations can easily yield 450 million yuans or more and the loss due to the abolition of customs can be more than made good.

Land tax, being the oldest tax in China, as elsewhere, and being the most important until recently, was not only of great importance as a source of revenue but the whole administration of the country in the rural areas was and had to be built around the registration of land, assessment of land tax and its collection. The assessors and collectors of land-tax exercised great authority over the peasants and often used it for extortion and oppression. They also became the instrument through whom local and provincial despots imposed their will over the peasantry, over-assessed land tax and collected it with great rigour and often cruelty, subjected them to all manner of exactions and imposts and even more than the vagaries of nature made agriculture a precarious and risky means of livelihood for the peasants. Revision of land records, on which the assessment was based, being such a costly and laborious business, the old valuation in spite of

having been rendered out of date by changes in rights and the relative position of land holdings, continued to be used, and, as stated before, the assessments were based on the records dating back to two or three hundred years and created very glaring anomalies. Weakening of administration in last two or three decades of the Manchu dynasty, lack of political stability after 1911 and up to 1928, and after 1937 the war and chaos which increasingly supervened particularly in the countryside during and after it, gave opportunity to all despots to oppress the peasants through land taxation and otherwise, collect the levy very much in advance, impose all kinds of surcharges and misappropriate the receipts of the tax without any fear whatsoever. The National Government, during the period of mounting inflation, relied more and more on land taxation for the supply of grain and revenue, in 1941 transferred it from the provinces to the centre and later attempted to change the basis of assessment from the area of land to its capital value; but the situation really became worse and worse, and at the end the cumulative hatred of land tax made it not only the most onerous but also the most odious levy and quintessence of the old regime's complete disregard of the interests and well-being of the masses.

It, for the above reason, became almost inevitable that the old system of land taxation should be replaced by an entirely new system; and the peasants should be given the confidence that the old land tax, which was interwoven with the old agrarian economy, would have to go. In the areas north of the Yangtsi a new tax on agriculture had in fact been introduced on the basis of the experiments tried with success in the Border Region and the other 'liberated' areas; but when in the area south of the Yangtsi the old regime disintegrated, a new tax on agriculture was also introduced as a part of the agrarian revolution. In the North the land reform had been more sweeping and not only the landlords' but also the rich peasants' land had been taken away and distributed among the poor peasants and the landless labourers. Distribution of land was therefore more or less even, and a proportional tax on agriculture assessed according to the produce of land would,

it was held, meet the needs of the situation. In the South, however, the land-reform did not go as far, the rich peasants were left in possession of most of their property and there was greater inequality in land holdings. It was, on that account, decided to make the new tax on agriculture progressive in the South; but since then even the agricultural tax in the North has also been made progressive, and now the only difference between the North and the South in this respect is that the rates of graduation are steeper in the former than in the latter. There are two important differences between the old land-tax and the new tax on agriculture: (1) in the new tax the produce and not the area is the basis of assessment and (2) the tax is levied at a graduated rate, there is a limit below which the produce is not taxed, and above the limit the rates are progressive. There is still registration of the rights in land, but the ability to pay is measured by the produce that the land yields and not by the size of holding. A standard yield of land is assumed as the basis of assessment, higher yields realized by better farming technique, a greater application of labour on larger investment do not justify the increase in the tax liability. As a rule when the assessed produce is 150 catties per year per head of a family, no tax is levied; but the exemption limit is higher in the case of the minorities. In Sikang, for example, where mostly the Tibetans live, the limit is 220 catties per head and in Sinkiang 275 catties per head. According to the graduated scales applicable to the North the rates are 20 catties when the produce per head is 300 catties, 40 when it is 450, 60 when it is 600 and 120 when it is 1,000, i.e. 6½ p.c., 8 p.c., 10 p.c. and 12 p.c. respectively. In the South the rates vary from 5 to 30 p.c. and the exemption limit is the same. The rates are 30 p.c. lower in the case of the minorities. On newly reclaimed land no tax is levied for five years, and similarly the concession rates are charged when fertility of derelict land is restored by the peasants themselves. Reductions or remissions from the tax are granted when owing to floods or droughts yields fall short of the normal or the crops are completely damaged. The tax is as a rule paid in kind,

though in a few cases near the cities it is permissible to discharge the liability in cash. The assessment is made by the elected village government and it can be challenged and appealed against. Grain in discharge of the tax liability is delivered by the tax payer at the state grain store. In terms of money, yield of the tax was 2.75 billion yuans in 1953, 3.3 billion yuans in 1954 and 3.05 billion yuans in 1955. The estimated yield in 1956 was 2.8 billion yuans. About 93 p.c. of the collection is in kind and 7 p.c. in cash. In terms of grain the tax amounted to 17 million tons in 1953, 18.7 millions in 1954 and also in 1955. There is a surcharge on this tax which is levied for the benefit of the local authorities of the Hsiang and the county. The rate was 15 p.c. in 1952, 12 p.c. from 1953 to 1955 and was raised to 22 p.c. in 1956. Revenue from surcharge is shared among the Hsiang, the county and the Province. From 1953 to 1955 the Hsiang received 7 p.c. and the county and the province 5 p.c. Of the higher surcharge of 22 p.c. in 1956 the county and the province received 15 p.c. and the Hsiang 7 p.c. The surcharge receipts are not included in budgetted receipts of the Central Government. Receipts of the Agricultural Tax are shared between the Centre and the Provinces as a rule in the proportion of 60 to 40, though the proportion varies; and in the case of the provinces like Sinkiang and Inner Mongolia the entire yield of the Agricultural Tax is credited to Provincial account. It need not be added that the assessment is, as a rule, fair, there are no exactions and in the administration of the tax, grave abuses of authority, which were so common before, have largely been put an end to. The new tax on agriculture is, as stated above, a part of the new agrarian economy and is, therefore, free from its old evils. Its relative importance in the national fiscal system has, as already pointed out, been diminishing, and it is of greater importance from the standpoint of grain deliveries than as a source of revenue, i.e. the fact that the tax is paid in kind enables the state to acquire control of a part of grain surplus, which, together with the quotas fixed under the system of monopoly procurement, provide the grain reserves required to work and sustain the rationing system. The new basis of assessment



and the application of the graduated scale make that tax a much better tax, and its administration is a safeguard against the arbitrary exercise of fiscal power. Tax burden of the agriculturists has been reduced and its distribution made more equitable, but the fact that its assessment and collection is now subject to the 'rule of law' is even a much greater gain, for the worst part of the old tax was that it in practice was assessed and collected without any deference to regulations and was a very powerful engine of oppression. It has been estimated that in 1936 the peasant paid in tax what in the present currency amounted to 538 million yuans, in rent 8500 million yuans and in kind 100,000 million catties. In 1954 the estimated value of grain collected through the tax on agriculture was 2,600 million yuans or 38,000 million catties (nearly 19 million tons). These are necessarily rough estimates, but assuming that they are broadly correct, they give an indication of the reduction in the burden of the peasants through land-reform and changes in taxation of the agriculturist. The amount credited to the treasury in 1938 was, of course, no measure of what the peasants had to pay for this tax kept much more out of the pockets of the peasants than what it brought to state treasury and its harassment which they suffered could not possibly be evaluated in monetary terms. To sum up the position is that the new tax on agriculture, taking it as a part of the agrarian reform, greatly reduces the burden of the peasants, improves the methods of assessment of taxation, makes its distribution more equitable and eliminates the vexatious character of its administration.

China is a highly centralized state and its finances are, therefore, also highly centralized. In 1955 of the total state revenue 78.44 p.c. was allocated to the centre and 21.96 p.c. to the Provinces. The Central Government revenue is received under three heads: (a) central heads (b) shared heads and (c) adjusting heads. It takes (1) the entire receipts of customs, salt, profits of the state-owned enterprises and credit and loan heads which in 1954 amounted to 53 p.c. of the total central revenue; (2) a proportionate share of the receipts of the tax on agriculture and the business tax which in 1954 amounted to 24 p.c. of its revenue and (3) the balance of the receipts of the

commodity taxes out of the yield of adjusting assignments In 1954 it was 23 p.o. of the central revenue. The Provincial Government levy a number of minor tax e.g. taxes on slaughter houses, taxes on the sale of cattle, house and land tax in urban areas, entertainment duty, license fee, stamp duty, registration fee and take net receipts of the locally state-owned enterprises. In 1954, 35 p.c. of the revenue of the Provinces was derived from such sources, 39 p.c. from the Provincial share of the tax on agriculture and the business tax and 11 p.c. through adjusting assignments out of the receipts of commodity taxation and the remaining 15 p.c. was made up by contribution from central surpluses. The share of the Provinces out of the receipts of the tax on agriculture and the business tax and the adjusting assignments vary according to the gap between the estimated receipts from provincial heads of revenues and the approved budgetted expenditure. The Provincial budgets are examined and approved by the Central Governments and all departments of the former, including the Finance and the Planning Departments, are under the direction and control of the corresponding departments at the Centre. Before, during and after the war owing to the lack of effective control over the the more distant provinces, the central administration suffered seriously from its inability to adopt and apply a coherent policy in financial, as in other, matters In 1941 an attempt was made to unify administration and one of the measures adopted for the purpose was centralization of finances. It, however, was not of much avail in practice; and when the old state was disintegrating, it was obviously not possible to have well-planned, orderly and effective financial relations between the central and the provincial governments. The unified system of finance now in operation is held to be a practical necessity and a counter-part of the whole system of administration based upon, as already pointed out, the principle of 'democratic centralism.' This, it may be hoped, is the first phase of building up an efficient and flexible financial apparatus of the new state, and in course of time it would be possible to operate it on a more decentralized system. The degree of financial centralization, which is being practiced now, may be, probably

is, unavoidable at the present stage of political and administrative development, and also justified as a reaction to the chaos from which China has been retrieved and in view of her long history of futility and conflicts from which she suffered so greivously owing to the pre-dominance of centrifugal tendencies. It is, however, fairly obvious that a country of the size of China and diversity of conditions cannot financially and otherwise be administered as a very highly centralized state without making her polity unduly rigid; and in due course, it may be hoped, the necessary re-adjustments would be made in financial relations between the Centre and the Provinces to accord greater financial autonomy to the Provinces.

In conclusion a few comments may be made on the scales of public salaries in China. There are 25 grades of salaries of public officials and the salaries of grade 1, 5, 10, 15, 20 and 25 are given in the table in the footnote.<sup>1</sup> Only a very small proportion of officials are, it is reported, receiving more than 300 yuans or Rs. 600 per month and most of them are in the scales below 200 yuans per month. The highest salaries being about 500 yuans per month, it is clear that the ceiling is not unduly high and most public officials are drawing salaries which are by no means excessive. These salaries also represent the general income structure of the country for, excepting incomes of the owners of private enterprises, which are, to repeat, of rapidly diminishing importance, variations in incomes are mostly limited to the range of from 30 to 40 yuans per month to 200 to 300, and most of them are within the 40 to

<sup>1</sup> *Scales of Salaries of Public officials*

Grade	Amount	New Yuan
I	3,935,200	593.62
V	3,214,900	321.49
X	1,755,830	175.58
XV	1,023,822	123.60
XX	603,412	60.34
XV	336,328	33.63

Minor adjustment in the scales has probably been made to round off the scales.

200 range. The scale of salaries of public officials are, in other words, integrated with the income structure as a whole, and the latter is being built up according to principles of general application. Incomes of the peasants, in spite of the great improvement that has taken place in their position, are as a rule lower than the incomes in administration, state-owned industry and commerce and the co-operatives and would have to be raised by various measures. It is also likely that with the increase of prosperity there would be a general upward revision of income scales; but it is, as stated before, essential for a realization of a socialist society that disparities between incomes should not be wide and represent only functional differences. The existing scales of salaries in China are austerity scales owing to the existing limiting factors and it is one of the best features of the new economy of China that it has been possible to obtain the devoted and efficient services of hundreds of thousands of men and women in key positions, the intensity and quality of whose work is largely independent of their monetary rewards. Revision of incomes may, probably would, be necessary, but the new state and the new economy would lose something of incalculable value and importance if the range of inequalities becomes greater and money considerations become decisive in recruitment of public and other functionaries for administrative and other responsible posts. That would not be an advance towards socialism but retreat from it. There is no immediate risk of this taking place in China, and the limits set by the national income and the need for large expansion of administrative, scientific and managerial staff for rapid development and industrialization of the countries would make it very unlikely that for a long time the men in responsible position would be paid at a much higher rate or the difference between their incomes and those of the workers lower down in the scale become much wider. Characterization of equalitarianism as a bourgeoisie conception by the men in the position of Mr. Chou En-lai, to which reference was made in Chapter X is, however, an indication that the men in authority have begun to think seriously in terms of inequality. It may be repeated that though the degree of inequality existing at present in China is necessary

and desirable, and probably the operative ceiling of 200 to 300 yuans per month can be raised with advantage, it would be not in the interest of socialism in China to emphasize further the necessity or desirability of greater inequality of incomes.

## CHAPTER XIV

# THE SOVIET AID

THE SOVIET aid has been of great importance in the rehabilitation and planned development of China; and the fact is freely and gratefully acknowledged by the Chinese Government. The fact, that the Soviet Union and the People's Republic of China have, under the existing world situation, to shape their international policies in close alliance with each other, is writ large in the events of current history, and is, it is abundantly clear, of great importance and mutual benefit to both of them. In the years of the struggle and adversity the Communist Party of China received full support from the Soviet Union even though materially it could not amount to much owing to the limitations of the resources of the Soviet Union and the need for not alienating her allies during the war. During the years of resistance it could not extend assistance freely owing to her having to make good the damages which the war inflicted on her own economy and the need for taking the correct line in international policy. Since 1949, however, the Soviet Union not only has acclaimed the rise of China and rendered considerable military assistance to her, but there has been an intimate understanding between the two and they have on all crucial occasions presented, as is a matter of common knowledge, a united front; and by doing so have created a greater balance of powers in the divided world—a balance which, in spite of its having increased tension for a while, has checked aggression and improved the prospects of peace. This alliance, which in China is often described as lasting, inviolate and unbreakable, is determined by historical necessity and being mutually beneficial, it is extremely improbable that in the next ten fateful years, there would, even if only the existing uneasy peace is maintained, be any material change in its content and significance. If, however, the present omens in favour of world peace are confirmed by the

events, and these two countries maintain their present tempo of construction and development—and there does not appear any reason why they should not—it is likely that this alliance would acquire a more beneficial character for the world as a whole, the internal policies of these countries would be modified and become less rigid and more receptive and their experience would be of great value for the conquest of hunger, poverty and misery. As war has become so obviously obsolete, it is reasonable to assume that given the propitious conditions of constructive peace, the Sino-Soviet alliances may not remain merely a bond of mutual assistance and defence, but broaden out not only into peaceful but creative co-existence and have unpredictable beneficial results. The atomic age may give the world, not only a revolutionary source of energy but also basis for a great common international adventure in the interest of mankind as a whole. Apart from these speculations, which are not irrelevant, the plain and undeniable fact is there that the Sino-Soviet alliance was and is historically inevitable and is of great mutual benefit and advantage to both countries.

For China, the alliance has, besides giving the people the feeling that their country is not alone and can count upon the friendship and support of a powerful country like the Soviet Union, been of great practical value for building up the new economy. The Soviet assistance has taken many forms, but among them is the one, which has been of the greatest importance but is not indicated in any treaty, agreement or protocol; it is the fact that in the Soviet Union as economy essentially socialist in character has already been developed, it has produced, from the social, material and technical standpoint, excellent results and can serve as a model for her. The Chinese are not blind imitators, they are fully aware of their culture, historical background, concrete situation and unique problems, and have shown great ability in dealing with their immediate problems in the light of their ultimate objects. They are also not doctrinaires in the sense of carrying their theories to logical but unworkable extremes or showing a disposition to overlook or not to understand the logic of facts or experience. In their strategy and tactics, military, political and social, they have, as a matter of fact, generally been great

realists, have given proofs of almost genius in improvisation, adaptations and flexibility and their success in no small measure is due to their having known the limits of the situation which could not be transcended. They are, in other words, not and never have been visionaries and realize very well the necessity of understanding and adjusting themselves to concrete reality. Nevertheless the Soviet Union has been for China a great exemplar and they have done their very best to learn from her experience, achievements and also failures. The Soviet Union was, they know, forced, when she was alone in an extremely hostile world, to adopt measures, methods and policies under the pressure of inexorable conditions, which are, under entirely different circumstances, neither called for nor can they serve any useful purpose. Moreover, she also knows that the Soviet Union was a pioneer on the road which she wants to traverse now and as such committed mistakes which ought not and need not be repeated by them.

They, however, have fervent faith in Marxism and Leninism, take it to be their inspiration and guide and are convinced that the Soviet Union, in spite of her limitations and very grievous lapses, has by practising and following the principles of Marxism and Leninism, raised very considerably the peoples' standard of living, level of culture, understanding and scientific knowledge and technique, industrialized the country with an amazing speed and success, built up a viable working socialist economy which has shown not only capacity for expansion and progress but also great creative energy and enabled her to win the war, smash a mighty war machine and gain victory from the brink of defeat with indomitable courage, great resourcefulness and organizing capacity. These facts give them even greater confidence in the soundness of the faith which has also been a beacon light to them in their most arduous struggles and sustained them in the darkest periods of their history.<sup>1</sup> As the Soviet Union has also had the

<sup>1</sup> In his speech delivered in Moscow on November 6, 1957 on the occasion of the 40th anniversary session of the U.S.S.R. Supreme Soviet Chairman Mao strongly endorsed this view in the following words: "The People's Revolution led by the Communist Party of China has always been a constituent part of the world proletarian



same inspiration, passed through similar fiery ordeals and risen to great heights of achievement in acting upon the same principles, the men in authority in China, it should be easy to understand, are very strongly attracted by the Soviet Union, are drawn very close to her and are very eager to take full advantage of her experience, technique and the proffered assistance. There is no need to see in this approach any relation of subordination, indiscriminating adoration or expediency dictated by the needs of the world situation. Between China and the Soviet Union, it is undoubtedly true, there is a real bond of great reciprocal need, and it is as much in the interest of the latter as of the former that the Soviet Union should assist China to the utmost limit of her capacity. It has also, however, to be realized that there is between them a much stronger bond—the bond of a common faith, of great suffering for the common faith, of the conviction that they owe their survival and success to, what for them is, its infallibility. The Communist Party of China and the new state have come into being mainly by the struggles, sacrifices and strivings of the Chinese people. They are not, it is well known, in any sense of the word, ersatz—the creation of pressure or an amalgam of the elements which have no real affinity of their own. The new China is an authentic phenomenon, expresses and realizes an inner validity of its own and owing to its history, size and position cannot be made to trail along on a course not of its own choice. She all the same has, for the above reasons, great admiration for the Soviet Union, is very keen to learn from her and, knowing that both of them have a common urge and a common goal and the Soviet Union is most willing to share with her her experience, technique, knowledge and as far as possible, resources, she finds in co-

socialist revolution for which the October Revolution laid the foundation. The Chinese revolution has its national peculiarities, and they must be taken into consideration. But both in the course of revolution and in building socialism we have made full use of the rich experience of the Communist Party of the Soviet Union and of the Soviet people. The Chinese people are happy that the experience of the October Revolution and socialist construction in the Soviet Union has enabled them to lessen or avoid many mistakes and conduct their affairs fairly successfully, although very many difficulties still face them."

operation with the Soviet Union a real fulfilment, hope and promise. It is not possible for those, for whom Marxism-Leninism has nothing like the same appeal, to react in the same way to the situation in which the greatest degree of collaboration between the two countries is a course set for them by historical forces. For China, however, it is much more than becoming a bed-fellow with the Soviet Union by necessity. This co-operation for her—i.e. for those who are at the helm in China and are making her future—is a real article of ardent faith and a common undertaking of fellow wayfarers who have met on a crossing of history and see in the fact the hand of destiny and the heartening prospect of a long uphill journey together on the same road to the future. To sum up the point, the Sino-Soviet alliance is essential in the interest of both countries, but it is, in a true sense, an expression of a real *Leitmotif*—i.e. the inner purpose of their being. It should not be necessary to share this conviction to understand its bearing on the mutual relation of the Soviet Union and China and their importance and significance to them. The well known facts of the case so clearly point to this conclusion that it would really have been not necessary to set it forth with the degree of emphasis indicated in this paragraph, but for the fact it is very often missed and a construction is put on the Sino-Soviet alliance which it obviously does not and cannot bear.

The above point is specially important in relation to the methods and manner of developing the new economy for the concepts with reference to which it is being developed in China are essentially the same as in the Soviet Union. Democratic dictatorship and centralism, the organization of labour and its role, co-operative farming and prospective mechanization of agriculture and of course large-scale industrialization with very special emphasis on heavy industries are all features of the economy which have already been adopted and developed in the Soviet Union and are now being incorporated in the new economy of China, its socialist transformation and development as in the economies of the countries of Eastern Europe. These are inherent in the Marxian approach to economic transformation and development. They can be and

are open to criticism on premises which amount to denial of the underlying assumptions of the Marxian theory, but on the premises of the latter they have a coherence and integrity of their own and are largely interdependent. It is necessary to understand them in relation to one another and to the central social objective on which they are based and from which they are derived. The institutional framework within which these principles are being applied and the mechanism of putting them into effect to make the economy a self-consistent working proposition are, generally speaking, not essentially different in the Soviet Union, China and the countries of Eastern Europe and have been very largely influenced by the model of the Soviet economy and its operating principles. The vast scale on which the new premises are being adopted in practice and social engineering which is going with it are a development of such importance that the only intelligent reaction to it can and should be to understand it in relation to its own underlying assumptions and not import considerations in the appraisal of its character and results which are specifically excluded from them. The new economy of China bears on it the impress of the Soviet experience and achievement, and the fact that it is being developed over such a vast area and through and for 600 millions, who have a rich culture of their own with an unbroken continuity of at least 4 thousand years, invests this development with a special meaning and importance of its own, and gives to the Sino-Soviet alliance, as stated above, a specific significance in the present context of world situation and its future unfoldment if and when positive creative peace becomes the active principle of international relations.

For developing the new economy it has been found convenient to not only adopt the general principles, which have been known to work in the Soviet economy, but also its technique, scientific, technical and social, in relation to all operational problems. In regard to principles and methods of capital formation, the administration of the state-owned enterprises which combine the principles of the undivided responsibility of management with active participation of labour in the operation and development of the undertakings, the

preparation and implementation of the plan of economic construction in relation to the whole economy and its bearing on the position and contribution of the individual concerns and even individual workers, the development of price structure and its mechanism for fixing the prices of commodities and their inter-relation, in building up the new system of credit, currency and banking, developing the theory and art of its management and using it as an instrument of standardization and reduction of costs, and implementation of the plan as an integral whole, the selection of and utilization of the strategic points in the economy to steer it with a purpose and in the desired direction in all these respects the Soviet experience has been freely drawn upon and its general operational principles have been made as the first working hypotheses for empirical development of the economy. In relation to the development of the new pattern of rural economy, i.e. in the organization of mutual aid team, farming and trading co-operatives and their internal working arrangements, in the setting up of large mechanized and state farms and agricultural technique instruction centres, the use of the latest machines for the reclamation and the conservation of soil, in the technique of the improvement of animal husbandry and afforestation and in the approach to the problems and future, of the minorities the Soviet experience has again been liberally utilized. In the organization of the farming and handicrafts co-operatives it is more the expedients adopted in the countries of Eastern Europe, in which in the transitional phase of private ownership of the means of production is combined with unified management of the farms and the industrial co-operatives, which have been largely adopted and not the Soviet practices, but as the goal of socialist transformation is collectivized agriculture and completely socialistic handicrafts production, the compromise really amounts to a stage in the progressive realization of the same social objectives and does not introduce any real departure from the underlying principles of the Soviet economy. In the first stage of development and transformation it was convenient and necessary to adopt this course; and it may be hoped that experimental approach to the whole apparatus of production would be

preserved and the latter would be modified, improved upon and even changed in the light of actual experience in China. As the first approximation in the task of erecting the new framework of the economy the full utilization of the Soviet experience has meant great economy of thought and labour and been of incalculable value. China being, however, a country of enormous size, the largest population and mature culture which, it is clear, is being re-born, should and it may be assumed, would make her own contributions to the theory and art of social construction by retaining and applying more fully the objectivity of approach, the spirit of critical enquiry and innovating endeavour and enrich the common pool of knowledge, skill and experience in creative social craftsmanship.

The Soviet practice has also greatly influenced the content and form of new thinking in China; and in re-organizing their educational system, the objects and method of teaching, scientific research and the framework of reference, the accepted Soviet views and principles have been widely adopted. It is not possible to state with any degree of knowledge and assurance how far the general adoption of the Soviet views and practices have been preceded by their critical examination, careful enquiry and objective assessment of their premises and results. It again appears to have been necessary to assume that the Soviet theories and practice, having been evolved through experience of the application of the tenets of dialectical materialism and having been so fruitful, could well be adopted as a whole as a good starting point for acquiring and applying a set of integrated ideas and practices needed for the new economy. The Soviet ideas had in practice, it was taken for granted, demonstrated their worth empirically and were an integral part of their common living faith—i.e. dialectical materialism. Probably this choice is justified, for it was not possible to develop a completely autonomous set of well-sifted ideas and practices needed for and suited to the Chinese conditions, and it was not necessary to do so because, in this respect as in others, adoption and assimilation of the Soviet views and ways was considered only a recognition and appreciation of their high qualities and

great practical importance. Given the premises of working creed of the men in power in China it is not easy to see how a different course could have been adopted and what would have been its advantage; and yet there does not seem to be any reason why the Chinese should be irrevocably committed, for example, to the Pavlovian conditioned reflexes in psychology, Lysenkov's genetic theories in biology, the Soviet economists' theories of capitalist crisis in economics, their interpretation of the Marxian economic principles or their assessment of the Keynesian economics. It should be possible and would be necessary, after the initial stage of re-organization is over, to re-examine the current Soviet theories and practices with care, evaluate them anew from the Chinese standpoint and not take the contingent, in some cases even exigent, phases of the Soviet thought as having cardinal importance or significance. It is not necessary for the Sino-Soviet co-operation in the development in the new economy of China to put all current Soviet ideas in one packet to be taken or discarded as a whole. This does not imply criticism of any specific theories referred to above or any other theory current in the Soviet Union; but it does mean that without in any way of detracting from the value of the Soviet contributions to the development of socialist theory and practice, it is necessary for China, as a close ally of the Soviet Union, to exercise discrimination in this as in all respects and through really free exchange of ideas and experience, carry further the creative effort of developing the intellectual apparatus of socialism. China is greatly indebted to the Soviet Union also in this respect, and she can repay at least partly her debt through re-valuation, and if necessary, modification of the Soviet contributions to the theory and practice of socialist thought. Tendency to adopt an exclusive attitude would actually come in the way of China's development and also somewhat impair the genuineness of the Sino-Soviet co-operation. There is need in China, and also in the Soviet Union, to throw her doors wide open to the inflow of ideas from the West, i.e. the countries like the U.S.A., United Kingdom, France and Sweden, and develop the opportunities of cross-fertilization to the full. Free inflow of ideas from all the non-socialist countries would

greatly help and not in any way hinder the development of socialist society in China and should not, it may be repeated, make the Sino-Soviet friendship any the less significant or fruitful on that account. China has been, throughout her history, one of the most tolerant and receptive countries in the world, and maintenance and development of this quality would be a great asset in developing her economy and culture. The Sino-Soviet alliance should be, as it is, an alliance of comrades and not exclude fruitful contacts with any other country.

Apart from the great service which the Soviet Union is rendering to China as an example, she has been and is aiding the development of her new economy by (1) sending to her high level experts in large numbers in many fields, and they, besides giving expert advice and guidance have trained and are training thousands of Chinese in all grades to enable them to assume responsible positions in the various branches of production (2) by providing blue prints for the development of industries, by planning the preparation of large projects in industry, mining, communications, water conservancy and geological survey etc. and by helping China to the utmost to execute these projects (3) by exporting in increasing quantity to China machinery, machine tools, electric equipment, precision instruments and other means of production—particularly complete installations for development of heavy industries (4) By making China independent of the fluctuations in world prices and world markets through long-term agreements on stable prices with an assurance of expanding markets for her export, and of the supply of goods urgently needed for industrialization which otherwise she could not obtain owing to the embargo. (5) by gearing her production specially to meet the specific requirements of China for the execution of her development plans and (6) by granting long-term loans and transferring to China her share in the jointly-owned enterprises at low rate of interest and easy terms of repayments over a long period. The Soviet Union has given this assistance without asking any financial return, and the spirit in which it has been given has evoked warm tributes of appreciation and gratitude from the Chinese Government.

The role which the Soviet experts have played in the economic construction is a topic to which frequent and very appreciative references are made by the Chinese leaders. They are known to have come in large numbers and according to China's specific needs. This assistance has covered the entire field of development and transformation. The purposes for which it has been given need to be specified in some detail in order to indicate its wide scope and crucial importance. They are:- Rehabilitation of communications, which had been completely disrupted; preparation and execution of schemes for flood control and river valley multi-purpose development; repair, modernization and development of works like the steel works at Anshan and planning the development of two new steel production centres; construction of railways like the line from Chining to Ulan Bator and Lanchow to Urmuchi, setting up oil refineries, chemical works and other industrial concerns in Sinkiang and conversion of Urmuchi into a fast developing modern industrial city; installation and operation of 211 new complete plants, which are described as the core of the first Five Year Plan, and include modern iron and steel works, non-ferrous metallurgical plants, coal mines, petroleum refineries, heavy engineering works of various kinds, motor cars, aircrafts and tractor works, electrical power stations, chemical works etc. They have rendered assistance in re-organizing the education, in creating and expanding facilities for technical training at all levels, and in developing and working agricultural instruction centres, equipping and running large mechanized state farms and in carrying out afforestation and improvement of animal husbandry schemes. Their assistance has been specially valuable in organizing and expanding geological surveys in all parts of China—particularly North West, South West and Tibet which are already known to have disclosed the fact that mineral wealth of China is much larger and more diversified than was previously estimated. In the preparations of the gigantic schemes of taming of the Yellow river and conserving the water and power of the Yangtsi the Soviet aid has been of crucial importance and the task of solving these problems is being seriously taken in hand. The Soviet Union has lately offered to give China full assistance in pro-



moting research work in the use of atomic energy for peaceful purposes. In short, to repeat, the Soviet experts have been available for and rendered indispensable assistance in planning out and carrying out the whole programme of economic development and socialist transformation; and it is acknowledged that not only their assistance has been technically of immense value but has been rendered, as stated above, in a very fine spirit—with complete devotion to duty, with full awareness of the fact that Chinese cause is their own and with the utmost desire to enable the Chinese to assume the full responsibility for the construction and the development of the most complicated projects by imparting to them fully their knowledge and skill. This assessment is based upon the reports of the Chinese authorities and has to be taken as authentic.

In training the technical personnel the Soviet experts, as stated above, have also been very helpful. Thousands of technicians and administrators are reported to have been trained on the Chinese Changchun railways, which until 1952 was jointly owned and operated and also in the four companies under the Sino-Soviet joint management (1) The Sino-Soviet Non-ferrous and Rare Metals Company (2) The Sino-Soviet Ship Building Company (3) The Sino-Soviet Petroleum Company and (4) Sino-Soviet Airlines, all of which were transferred to the sole Chinese management on January 1, 1955. The same practice has been adopted in all plants to which the Soviet experts were assigned and most of them are now fully manned by the Chinese themselves. Some Soviet scientists and engineers are also working in the higher technological institutes and participating directly in technical education. More than 6,000 Chinese have been sent to the Soviet Union and are receiving the very highest training available in that country. China is very keen on attaining complete self-sufficiency in finding her own technical personnel and is receiving full assistance from the Soviet Union in realizing this object.

The Sino-Soviet trade is also, as explained already, an important measure of Soviet aid to China.<sup>1</sup> It has in the first

<sup>1</sup> "The Sino-Soviet trade agreement was signed on April 19, 1950 and since then the volume of trade has grown steadily. In 1955 it

place offset the effects of the embargo and in volume foreign trade of China has surpassed the pre-war peak level. Secondly, as trade between China and Soviet Union is planned trade, its terms of exchange, the volume and time of deliveries, and prices of the commodities are all stipulated in the agreement which is *not subject to change during its currency*. China is thereby given immunity from the risk of fluctuations of world prices and demand; and as four fifths of the Chinese trade is with the Soviet Union and the other socialist countries, the immunity covers the bulk of her international trade and places her in a position to plan her production and commerce on a firm and assured basis. Thirdly, which is of course most important, China is now through her planned trade getting what she needs most and otherwise would not be able to obtain i.e. capital goods for carrying out her programme of rapid industrialization. The Soviet Union is supplying machine tools, building machinery, steel products, rare metals, electrical engineering and telecommunalional appliances, precision instruments, medical equipment, petroleum, raw materials for chemical industries, mostly goods which are on the 'embargo list' and cannot be obtained from alternative sources of supply. In 1954, 97 p.c. of the Soviet exports to China consisted of such goods and whenever necessary, special effort is made, as stated already, to adjust the Soviet plans of production and even productive appliances to meet, as stated above, the specific requirements of the Chinese programme of construction.

The Soviet financial assistance to China has amounted to 4,220 million roubles. Long-term credit of 1,200 million roubles for a five year period was granted in 1951 for which interest was charged at one per cent per annum to cover the delivery of capital goods of all varieties repayable in ten years commencing with 1954. Further credit of 520 million roubles was granted on similar terms in October 1954 and is being utilized for importing complete installations. Under the 1954 agree-

was four and a half times as great as in 1950—some 53 p.c. of all China's foreign trade for that year and greater than her trade with any country in any year before liberation."

- People's China No. 11, June 1957 p. 11.

ment the four jointly owned enterprises referred to above have been transferred to the absolute ownership of the Chinese Government and the value of the Soviet shares has been converted into a long-term loan to be repaid over a long period and on easy terms. The Chinese Changchun railway, now known as the Harbin Railways, was transferred to undivided Chinese ownership and control on December 31, 1952. Its total length is 2000 kilometres and the Soviet share of its equipment was handed over to China without any compensation. The Soviet Union has also not asked for any compensation for military installations and stores left behind on the evacuation of Darlen by the Soviet Union; and she has also made a gift of machines and equipment for a large 50,000 acre state mechanized farm in Manchuria which is the biggest state farm in China and is being developed to experiment in and demonstrate the advantages of large scale mechanized cultivation on scientific lines. In April 1956 the Soviet Union has assumed the further obligation of aiding in the building up of very large industrial enterprises and providing equipment and technical assistance for the purpose to be financed by a long-term credit of 2,500 million roubles. This brings the total financial assistance of Soviet Union to China to 4,220 million roubles or \$1,035 million (U.S.A.), apart from the value of the shares in the jointly operated enterprises, military installations and the 50,000 acres mechanized farm in Manchuria referred to above. The Soviet financial assistance, taking into account the Soviet Union's own urgent needs and its resources, is very considerable; and though China is, as explained already, mostly financing her very impressive programme of economic construction from her own resources, the Soviet assistance covering as it does the production projects of crucial importance is of critical value, and its real contribution to China's development is the greater on that account.

The Soviet aid to China is described by the Chinese as completely disinterested and an illustration of fraternal assistance rendered to her without 'strings' of any kind and with a genuine desire to enable China to become one of the most advanced industrially developed countries of the world in two or three quinquennia. It is, as stated above, in the enlightened

interest of the Soviet Union that China should become a strong and highly developed industrial country, take her due place in the community of nations and be able to defend herself fully against aggression. The Soviet Union, to repeat, needs China as much as China needs the Soviet Union, this knowledge is the basis of their friendship and therefore makes it a true partnership which is mutually beneficial and rests on the basis of complete equality. All the same, the potential strength of China, her enormous population and her strategic position and importance could arouse misgivings or inspire fear. Her aid, being a contribution to her growing strength, is also obviously a contribution to her growing independence; and yet it is being given without any fear of the future. In Sino-Soviet relation mutual trust has necessarily to be a very important element, because it is obvious that, in spite of China's dependence upon the technical assistance of the Soviet Union, she is not and cannot be held in the latter's leading strings and her relative position would, as the development of her own resources proceeds apace, become stronger and more and more independent. Their common faith and common objective are, as explained above, a real bond between them and give it a meaning of its own in their mutual relations and perhaps in the wider context of world affairs as a whole. There

<sup>1</sup> One of the most serious failings of the Soviet Union, which has been disclosed at and after the 20th Congress of the Communist Party of the Soviet Union is the manifestation of 'Great Nation Chauvinism' by the USSR in her relations with the countries of the Eastern Europe. In other words, she has, it is admitted, dominated the policies of these countries and interfered in their internal affairs in a manner which has caused serious and rightful resentment. The events in Hungary and Poland have proved that dominance and interference were not due merely to 'the cult of the individual' for which Stalin has been arraigned after his death. In his relations with China it appears that even Stalin realized the necessity of living up to the professions of 'socialist equality' and the transgressions, if any, did not assume serious dimensions. The course of events, the increasing weight of China in world affairs and the need for maintaining and consolidating friendship with her from the point of view of the Soviet Union, makes it almost impossible for the latter to show or practise any 'chauvinistic' propensity. The imponderable referred to and emphasized in the text are not the less valid or important on that account, but are greatly reinforced by the 'balance of power' between the two countries.

## CHAPTER XV

# THE POPULATION PROBLEM

THE COMMONLY held view in the West has been that China is a very heavily over-populated country, and this fact has been and is the root cause of the appalling poverty of the people, of every high mortality which is and has been a normal picture of life in China and of famine, pestilence and even political disorders which have inflicted incredible loss of life on her people. A hundred million persons are reported to have died from famines in China in the 19th century and fifty million since 1937 from war casualties, civil disorders, food shortages caused by destruction and disorganization due to the war, floods and droughts. These figures are not and could not be statistical estimates; but they indicate the order of magnitude of mortality which has been for ages accepted as inevitable in this country. These have been taken to point to the conclusions that there have been and are too many people in China, and 'the fundamental fact,' in the words of Mr. R. H. Tawney, 'is of a terrible simplicity. The catastrophes, which shock the West, are merely sensational revolutions of a process of re-adjustment, which is continuous and inevitable. They are the occasions, so to say, on which the nature shows her hand. Famine is the economic, civil war the political expression, of the pressure of population on the means of subsistence' This is the Malthusian interpretation of the Chinese history, which even a writer like Mr. R. H. Tawney, who has deep insight and understanding and socialist convictions, accepted as valid and its logical conclusion, of course, was that without deliberate limitation of the size of the family and population in China, all other measures, i.e. modernization and development of agriculture, construction of railways and roads, industrialization of the country and

<sup>1</sup> R. H. Tawney op. cit. p. 109.

even political integration and independence, would be of no avail and "the struggle of a swarm of human beings for a bare physical existence" remain 'an ever present reality.' This view was expressed in 1932, but the more recent writers like Mr. Robert C. Cook have re-affirmed it even with greater emphasis who in his *Human Fertility* endorses warmly Dr. Winfield's opinion who after twenty years work as a medical missionary in China, came to the conclusion that 'all the proposed steps towards industrialization and increased agricultural productivity, all the processes necessary to enable China to play her legal role in a world community, all plans of progress—are and will be futile unless her population growth can be controlled.'<sup>1</sup> Similar views have been expressed as stated in Chapter II, by Mr. Cressy, the well-known geographer, and Dr. Carr-Saunders, formerly Director of the London School of Economics and quite a number of other writers on population. The view that over-population of China is a fundamental fact of her economy and the major cause of the wide-spread misery, sorrows and poverty of her people can well be taken as a part of the Western 'folk-lore' on China and this view is in a large measure determining the reaction of a number of intelligent people to the recent developments of the Chinese economy.

It is well-known that this view was repudiated by the present Chinese leaders ever since they organized the Communist Party in 1921 and is now firmly rejected by them for it is, from their standpoint, a direct negation of their Marxist faith. Starvation, misery and high mortality in China was attributed by them entirely to the exploitation and impoverishment of the people under feudalism, capitalism and their natural product, colonialism, and could only be ended by the complete overthrow of the enemies of their people, and it was further held that when that object was fully achieved and the masses had had opportunity and time to express and exercise their creative powers, and utilize to the full human and material resources and scientific technique and knowledge, there would be no limit to the expansion of production, the increase of

<sup>1</sup> Robert C. Cook *Human Fertility*, p. 84.

prosperity and rise in the standard of living of the people. The Malthusianism was, from their point of view, a reactionary doctrine which had been, ever since it was propounded, used to confuse and delude the masses, sidetrack the real issue of exploitation of man by man and deny the plain and otherwise irrefutable claims of social justice. They upheld this view then when they were in what looked like wilderness or struggling valiantly against heavy odds, and they have adhered to it with unqualified fidelity since their ascension to unquestioned power. Overpopulation and its fear have no place in their premises of thought and action, and when they refer to it, they do so to explode what for them is the Malthusian myth that under the unrestricted growth of population poverty of the masses has been, is and would be inevitable. This Devil, according to them, has been conjured up to fill the minds of the people with imaginary fears, divert their minds from the real evils which they must battle against and overcome and sap their will to resist, fight and conquer. Now that the Chinese people are masters of their own destiny, it is pointed out, they have no need to fight imaginary bogles and they can see for themselves how their nation is going forward with rapid strides, has already made good the ravages of war, increased rapidly the output of agriculture and industry, improved greatly the living conditions of the people, raised their standards of health, education and culture and invested heavily in building up modern industries, communications and water conservancy projects without in any way weakening their defensive military strength of the country. By these measures and by building up health services and education of the people in healthy living, the enormous loss of life, which was common in the past, has been and is being materially reduced; and consequently the growth of population has been very considerably accelerated. *All these achievements, it is urged,* are and should be a conclusive refutation of the Malthusian theory and the people have no reason whatsoever to feel concerned in the slightest degree about the growth of the country's population. The Marxian point of view with regard to population being what it is, it was really inevitable that this approach should have been adopted in practice by the new

Government of China, and every effort made to banish the fear of over-population from the minds of the people.

The two views contained in the above paragraphs clearly and completely contradict each other and are derived from the hypotheses which could not but be mutually contrary. These views raise issues which cannot possibly be examined or discussed at any length. Their practical bearing is clear; and the significance of the course of action which has been adopted in China is profound and far-reaching. Unfortunately the available facts with reference to which the position can be assessed are meagre and provide a slender basis for firm conclusions. For a long time 450 millions was taken to be the informed guess about China's total population, and was internationally adopted. According to the Chinese official estimates, which were framed on the basis of data lacking in uniformity in the method of collection, the population of China increased from 406 millions in 1912 to 465 millions in 1944<sup>1</sup> which gives an increase of 14.5 p.c. in 32 years or 1.3 million per year. The official estimate of the total population for 1936 was estimated as 479 millions, which if correct within

<sup>1</sup> Growth of Population in China from 1912 to 1944

Year	Population	Source of Data
1912	405 310 057	Ministry of the Interior
1923	441 849 142	" "
1933	444 426 557	Bureau of Statistics
1936	479 024 651	Ministry of Interior
1944	464 924 524	Bureau of Statistics

These figures are given in the Chinese Year Book, 1944-45 p. 73. This table is preceded by the following statement: "Although the methods of collecting data by the various provinces and municipalities in different periods are not uniform, a comparison of the figures will certainly give some idea of the main trends of population changes in China."

Estimates of Population in China go back to the second century, and though not comparable they are of interest as far as they go:

Year	Population in Millions.
145	42 52
1490	53 28
1570	69 69
1661	104 70
1765	182 65
1872	322 56

The recorded estimate of population is much older; and it is reported that the first census in China was taken by Emperor Yu of



reasonable limits gives an increase of 17 p.c. in 24 years and 3 million per year. No reliable vital statistics of China being available, the birth-rate and the death-rate of China also have had to be guessed or inferred from the data collected on a fragmentary basis. The recorded birth-rate of Formosa which was under Japanese rule since 1894, was 45.6 per thousand, and it has been held that the birth-rate of the mainland could not be less; but generally the rate 37 to 40 per thousand has been assumed to be the nearest approximation to the facts. The Department of Agricultural Economics of the Nanking University on the basis of the limited data collected in 101 rural localities of 16 provinces reported the birth-rate to be 38.9 per thousand and the death-rate 27.6 per thousand. According to another study of the Chinese population conducted under the Milbank Memorial Fund in 1934 referred to before the birth-rate was estimated to be 36.6 per thousand, and the death-rate 25.7 per thousand, and the rate of infant mortality 153 per thousand. According to a study made by the health department of the Mass Education Association of a North China rural community in Ting Hsein—a county of the province of Hopei—it was found that the birth-rate was 40.1 per thousand, the death-rate 27.2 per thousand and the rate of infant mortality 129 per thousand. The birth-rate and death-rate in China were, owing to the diversity of social, economic and mutual conditions, different in the different parts of the country, and also varied widely, owing to natural calamities and disorders. The only inference from the known facts, about which there can be no reasonable doubt is both the birth-rate and the death-rate of China were high and also the rates of infant and maternal mortality. It has been held by some students of population that the births and deaths in China over a century or more were nearly equal and her population has almost remained stationary in the 19th and 20th centuries. This may not be true of all parts of China, for in some provinces the population is known to have increased

the Hsiao dynasty in 2,200 B.C. and the estimated population in that year was 13 millions. These figures have really no statistical significance and are quoted because they are only available demographic estimates.

rapidly, but in the country as a whole it is probably true that the rate of growth of population had been for a century very low, even if the population was not actually stationary; and this position was an index and a measure of the enormous stresses to which her population had been subjected owing to the upheavals caused by both man and nature and also by the slow but continuous operation of the forces which produced and maintained the grinding poverty of her people. China has been for a long time a disease-, pestilence- and death-ridden country; and the hand of death lay heavily upon her people because they had come to accept the view that the position was decreed by fate and there was no escape from it. This fatalistic view was due more to the social servitude to which the masses of the people had been reduced than to their inability to master their re-productive powers; and as the conscious control of pro-creative capacity began only about 75 years ago even in the Western countries and became a factor of practical importance after 1901, social mores than biological factors were really responsible for the acquiescent attitude of the Chinese people towards the phenomena of births and deaths; and merely restrictions of births, if it had been possible and had in fact been adopted, would not have materially modified the extremely miserable conditions to which the people of China had been reduced by the combination of forces under which human life had hardly any value and death on a mass scale so common as to be accepted as a normal feature of the peoples' every-day existence. China has been described as a demographic mystery; and as no reliable data on population in China are available, and it is well-known that the masses of people in agriculture and industry were subjected to severe oppression and exploitation, it is more reasonable and scientific to explain their misery and sorrow in terms of the known facts rather than in terms of hypothesis whose validity cannot, for want of facts, be fully established.

In 1953 a nation-wide census was taken in China and on the basis of its results it has been officially announced that the population of China on June 3, 1953 was 601,938,035 but as over-seas Chinese whose number was estimated to be 11,743,320 are also included in this estimate, the inhabitants

of China on the selected date were, according to the actual count, 590,194,715; and if the population of Formosa, which, according to the United Nations Demographic Year Book was 8,261,000 in 1953, 600 millions in round numbers as the actual population of China can be taken as a reasonably accurate figure or at least more accurate than any other current estimate of the Chinese population. It is reported that a million persons actually participated in the census work, and government employees, staff of the various mass organizations, teachers and students were enlisted for the work, were given a short training and performed their duties under the direction of the census bureau which supervised and co-ordinated the work all over the country. Each householder was required to answer questions about name, sex, age and nationality of every member of his family, and the information collected through these visits were checked and re-checked. As China has not issued any census report, its population data cannot be subjected to the scrutiny which can be applied to the census material of most countries and their value cannot, on that account, be critically assessed. There, however, should be no reason to doubt the general efficiency of the census operation, or within the limits indicated by the fact of its being the first census of its kind, or the authenticity of its results. The general sceptical attitude, which has been adopted towards this official estimate of China's population, is only another indication of China not receiving its due consideration in international relations. Vital statistics of China are, on a nationwide basis not available as there is no registration of births and deaths; but the Ministry of Internal Affairs has statistics collected in different parts of the country covering a population of 30,180,000 and has estimated the birth-rate of China to be 37 per thousand, the death-rate 17 per thousand<sup>1</sup> and the

<sup>1</sup> These rates have been computed by the Ministry of Interior on the basis of statistics collected in 29 large and middle sized cities, the whole of Nigsea province, ten Hsians of each of the other provinces with a total population of 30,180,000 millions. It is based upon a wide coverage, but the method of sampling and calculation of the averages are not known. They may, however, be taken as general indication of the position relating to the births and deaths in China.

survival rate 20 per thousand. That means that, if the rates are even broadly correct, the population of China is increasing at the rate of about 2 p.c. every year or the annual increase of population in China amounts to about 12 millions. The reliability of these figures can be independently assessed only if their source, method of collection and safeguards against errors are known through the published materials. These statistics are, however, a great improvement upon the material available before, which formed the basis of the previous, not always, informed guesses of vital facts of the Chinese population. It may be hoped that China would adopt international standards in her future census operations and her vital statistics would also bear comparison with those of the more advanced countries of the world. The first steps, which have been taken for improving her demographic materials, are to be welcomed and should be taken as an earnest of her future intentions.

The most significant fact, which has been brought out by this measure, is the estimated increase of China's population by 12 millions every year. This has been made possible by the reduction of the death-rate say from 27 to 30 per thousand before the war to 17 per thousand. If the reduction has in fact taken place, it creates a new situation from the standpoint of the Chinese, and world population of very far-reaching significance. The world population is estimated to have increased from 2,455 millions in 1950 to 2,547 millions in 1953—by 92 millions in 3 years or at the rate of 30.66 millions every year, and in this estimate the increase in the population of China is *not* included. Assuming that the latter is actually increasing at the rate of 12 million a year, it means the rate of increase of world population has to be raised by 40 p.c. and China would account of 40 p.c. of the present estimated increase of world population. Mr. Robert C. Cook in his *Human Fertility* speaks of China 'as a population powder-keg which can be ignited by bungling good intentions. If a full fledged public health programme could over-night be initiated in China, the increase in number of human beings could easily total between ten to twenty million.'<sup>2</sup> The worst fears of Mr. Cook have come true;

<sup>2</sup> *Op. cit.* p. 63.

not through 'bungling good intentions' of the World Health Organization or any other agency which is paving the way to hell by its lack of understanding of the evil potentialities of the 'population powder-keg', but by a full fledged public health programme initiated by the Government of the People's Republic of China almost over-night i.e. October 1, 1949 which has been and is being developed with great vigour and with the full co-operation of her people. Mr. Cook and the others of his way of thinking agree with Dr. Winfield, whose views on China's population have already been referred to above, that 'it is obvious that the first objective of the medical health progress must *not* be the simple, natural one of saving lives; instead it must be the development of means whereby the Chinese people will reduce their birth-rate as rapidly as modern science can reduce the death-rate. It will seem rank heresy to propose that during the next twenty to thirty years not even severe epidemics should be attacked with every means available to modern medicine. . . . Existing misery and poverty can be permanently eliminated only when there are fewer, healthier people with longer life expectancy and greater economic security. The future welfare of the Chinese people is more dependent on the prevention of births than on the prevention of deaths.'<sup>1</sup> No apology is needed for this long excerpt, for it shows clearly the difference between the ultra-Malthusian approach and the actual health programme of the Chinese government and also indicates why this attitude cannot but rankle in a country like China and make Malthusianism a completely discredited theory.

The Chinese Government fortunately have acted upon the assumption that prevention of deaths is its primary duty and the future welfare of the Chinese people depends upon the prevention of deaths and not of births, has attacked severe epidemics with every means available to modern science and produced very good results, and is fully convinced that the first objective of medical health programme is and must be simple, natural one of saving lives. Reduction of the death-rate to 17 per thousand is the direct result of the measures

<sup>1</sup> Op. Cit. p. 85.

which it has taken to improve the health of the people, prevent diseases, combat and almost eliminate the epidemics like small pox and cholera, make people health-conscious by teaching them simple and elementary laws of health and habits of personal and community hygiene. The Chinese cities, according to reports, have from the point of view of cleanliness, been changed out of recognition, flies have all but disappeared from China, the women, the youth, the peasants and the workers have been organized to promote and even enforce higher standards of personal and collective hygiene, health of the children and anti- and post-natal care of the mothers. The public health programme is being developed with great care and enthusiasm and the first five year plan makes provision for 7 p.c. increase in hospital beds and 74 p.c. increases in doctors. It can be assumed that further reduction in the death-rate will take place. The death-rate of Formosa which in 1920 was 253 per thousand was reduced in 1930 to 208, in 1940 to 202, in 1949 to 131 and in 1953 to 99—almost as low as the death-rate of the U.S.A. (96) in 1953 and lower than the death-rate in the United Kingdom (114). In a number of other countries the same order of reduction in mortality has been achieved, e.g. in Porto Rico the death-rate has fallen from 21.1 per thousand in 1930 to 8.1 in 1953, in British Guiana from 23.5 in 1920-24 to 13.3 in 1953, in Chile from 31.0 in 1920-24 to 13.2 in 1953 and in Japan from 23.0 in 1920-24 to 17.6 in 1940 and 8.9 in 1953. Reduction of the death-rate to 17 per thousand in 1953 is, it is clear, not at all an incredible result. It appears that in many countries in the world without any radical revolutionary change or transformation saving of life is regarded as simple and natural objective of public health programme and lives have been and are being saved in very large numbers by using modern medical aids to the full and the tendency is likely to gain strength as a world-wide movement. In China it is certain further reduction of the death-rate will take place. If Formosa can have the death-rate of 99 per thousand in 1953, it will not take China many years to reduce her death-rate, in spite of her enormous size and population, to about ten per thousand. That would give a survival rate of 27 per thousand, assuming that her birth-rate remains

stationary at about 37 per thousand. Formosa population has increased from 6,653,000 in 1948 to 8,617,000 in 1953 i.e. by about 30 p.c. in six years for the birth-rate in that island, which was 45.5 per thousand in 1930-34, was also 45.3 in 1953. It is clear that Mr. Cook's 'population powder keg' has been ignited, the explosion is on and increase of population not by 12 millions but by 16 to 18 millions every year is not a remote contingency. Many other smaller kegs have also been ignited and probably world population will be increasing at a much higher rate than 30 millions a year; but China's increase in population may well soon be nearly 60 p.c. of the current rate of increase of world population. The significance of the fact may be greater than that of China's having gone the Soviet way, or even more dangerous than the transformation of Chinese economy on the Marxian lines. The fact that as an integral part of political, economic and social transformation of China, her population has entered upon a phase of expansion which may 'shake the world' even more than the Chinese revolution itself.

Even if this prospect is as alarming as the population experts would make it out to be, they have to realize that they cannot alter it or introduce any mitigating factors. They have to learn to accept it as a given fact and to reassess the future of world population and the relative demographic position of different countries or regions on the assumption that we are on the eve of great changes also in the sphere of demography and re-examination of the Malthusian premises of theory and practice may be necessary—probably unavoidable. This change is coming not because of the 'bungling intentions' of misplaced humanitarianism but through the resurgence of the countries like China and India, which changes not only the international centres of political gravity but introduces far-reaching demographic changes and therefore calls for intelligent and constructive re-valuation of the tenets of population theory and critical re-examination of the population policies—really their re-appraisal—with as little agony as possible—of the countries like Australia, Canada, USA and even a number of countries of Latin America. This re-appraisal is in their own interest and even more in the interest of world peace.

'The danger spots,' to which the population theorists have been referring with wealth of statistics have, in view of this prospect, become much more dangerous. The empty spaces of the world, which are not being filled and cannot be filled, by the people, who are treating them as close preserves, call for an entirely new approach on the part of the latter—an approach based upon rational understanding of the new prospect and the new situation in a spirit which regards 'one world' as pre-eminently desirable and in the context of current events, inevitable. The re-appraisal will take time and an emergence of a constructive policy will necessitate appreciation and understanding on the part of the 'have-nots' as much as on the part of the 'haves' but the essential point which matters is that this extremely significant fact in the world situation has to be understood and its implications fully assimilated by the countries which take their ascendancy in world affairs as an unchallengable fact and expect that the world events would adjust themselves to it. The tide in world affairs is not running that way, and the men of good will and foresight have to know that it can really lead to fortune for mankind if its direction and power are correctly understood and the course is set on the basis of that understanding.

In China, however, the growth of population has been viewed until very recently with complete unconcern, or rather with great satisfaction because it was believed that the potential resources of China are fully adequate to support the population growing at the rate of 12 millions or more per year. This belief is based upon the faith in the expansive possibilities of the new socialist economy, the creative capacity of the new social relations on which it is based, the large mineral, power and forest resources which China is known to possess and the great possibilities of her mighty rivers which are being and are to be harnessed, the large area of cultivable land to which the extension of agriculture is possible, the prospect of increasing agricultural production through scientific and more intensive farming, the large scale industrialization of the country and its integration through the development of communications—in short the belief is based upon the execu-



tion of the schemes of planned transformation, construction and development which are in hand or can and will be undertaken. The actual achievement of the last six years are taken to confirm the belief that China need have no concern about her fast growing population and no fear whatsoever that its increase would outstrip the absorbing or the sustaining capacity of her economy. For this belief both the facts and the faith are important; but the faith that an economy established on true Marxian premises and developed with skill and determination would be more than equal to the needs of the growing population has been and is of greater importance. This belief is taken to be valid for all countries and the world as a whole and to point to and provide the only road to survival and peace and prosperity. China being still in the stage of increasing revolutionary fervour, the dynamic power of this faith has to be conceded, and the fact that, in spite of immense difficulties the conditions of the people, have been greatly improved, investment and construction on a large scale have been undertaken and completed and the consumation of the schemes of great possibilities is in sight, the country's security has been insured and the outlook in this respect is being improved and, of course, the people have been given a sense of social purpose and mission and have displayed courage, strength and self-confidence in so many fields of endeavour and have accomplished a lot, strengthens this faith and creates confidence that the growth of population can and will be taken in the stride of the nation's will to fulfil her destiny. In regard to population this view being a sharp reaction to the restrictive and in its practical aspect, reactionary Malthusian view, its affirmation has acquired the character of a perfervid rejection of what is regarded as a vicious doctrine.

In these circumstances it is, from the practical standpoint, perhaps not possible to indicate with success to the Chinese that it is necessary to go beyond the limits of the Malthusian controversy and take a more positive and constructive attitude in regard to population and plan its size, distribution and growth on a reasoned assessment of the country's position and possibilities. There are two considerations which are obviously important and have to be taken into account in estimat-

ing the needs of the growing population; the first is that social minimum has to be adopted as the basis of this estimate and not the existing standard of living. The Chinese have no intention of perpetuating the present miserably low standard of living and this applies as much to additional as to the existing population—really much more to the former than to the latter *for in their policy and practice the children, in a true sense, are taken to be the sacred trust of the nation, are its hope and the means of fulfilling the plans for the future and in fact are being given the highest priority in the allocation of resources.* The social minimum cannot be realized all at once and for time being improvement in the conditions of the people on the basis of a compromise clearly suggested by the limitation of resources and the need for investing largely in the future has to be accepted. It is, nevertheless, necessary to take into account the difference between the actual and desirable conditions and realize that this difference has to be eliminated as soon as possible. The other consideration which is also basic is that the time factor is obviously of fundamental importance in regard to the growth of population, and vistas of the future, good and inspiring as they are, are of no use for meeting the immediate liabilities created by the rapid growth of population. The twelve million or more who are added to the country's population every year have to be provided for immediately even on a compromise basis and cannot live on the much greater production in agriculture and industry inherent in the schemes of the planned development of the country. In other words, rejection of the Malthusian theory is merely a negation and a more constructive attitude towards population is necessary and has to be adopted.

In spite of the considerable improvement in the living conditions of the people since 1949, it is well-known that the present standard of living, in absolute terms, is low, and is and should be a matter of concern. In China malnutrition and under-nutrition were known to be very common and though the cereal production per capita has been increased and the people are getting higher food value in terms of calories derived from cereals, their deficiencies of proteins, calcium, vitamins and minerals, which were known to be serious,

have, as far as is known, not been materially reduced. It is necessary to carry out extensive nutrition surveys on a nationwide basis, have an objective assessment of the specific shortages and their effect on physical well-being and plan the development of agriculture and consumption of foods on the basis of the ascertained deficiencies. The increase of the production of vegetable and fruits on an ad hoc basis and the improvement of animal husbandry for increasing the supply of milk and meat—i.e. animal proteins, have been planned but have to be co-related to the known requirements of the people in respect of protective foods and, as stated above, on reduction of the gap between the ideal and the actual nutrition standards seriously attempted. In China diseases like hypatic cirrhosis due to the deficiency of certain indispensable amino acids, tooth decay, ricket and softening of the bones due to calcium deficiency, anaemia due to iron deficiency, high incidence of worms and other intestinal parasites due to the use of human excreta as the common fertiliser and general nutritional poverty and other deficiency diseases were known to be common. It is probable that their incidence has been reduced and the position is now better; but as the deficiencies referred to above still persist, it is not unlikely that they are still a serious health problem and can be removed only if the people consume more meat, milk, fruit and vegetables. The housing conditions in the towns, but even more in the villages, are still unsatisfactory in spite of large scale construction of many modern housing estates in the industrial centres like Shanghai, Tienstin, Mukden, Hanhow, Sian, Lanchow and Urmuchi. The planned targets of per capita annual production of 1957 of 9.7 yards of cloth, 3.1 pounds of paper, 6.24 pounds of edible oil, 0.17 pair of rubber shoes and 3.85 pounds of sugar, in spite of the increase as compared with 1952—varying from 32 to 121 p.c.—show that the consumption of many essential commodities in China is still very low, and much greater increase in the production of consumer goods is needed. In planning the increase of population these important existing deficiencies have to be given their due consideration. They obviously matter and have an important bearing on the population situation in China.

The bearing of the time factor on the prospective growth of population is clear for various reasons. The cultivated area at present is small, compared to the total population of the country, per capita only 0.41 acre is available, the average density per square mile of the cultivated area exceeds 1600 persons, six-sevenths of the total population lives in one-third of the total area, the valleys of the Yellow River, the Yangtsi, the Pearl River and the Chengtu plains are still, as they have been for centuries, the areas of enormous concentration of population and in some parts of these regions density per square mile is 3 to 4 thousand and even in a few cases reaches 5 to 6 thousand. In spite of the re-distribution of 110 million acres under the land reform among the poor peasants and landless labourers. The holdings before the development of producers' co-operatives, were uneconomic and fragmented.

The cultivated area being less than 20 p.c. of the total area, the extension of cultivation is naturally the most feasible method of relieving the population pressure. No reliable estimate has been made of the total cultivable area of China and their scope for the extension of cultivation. According to an estimate of Dr. O. E. Baker of the United States Department of Agriculture made in 1921 and quoted by Mr. D. Castro in *Geography of Hunger* there are 700 million acres of land in China fit for agricultural cultivation of which only one-third is under cultivation. Validity of this estimate is, however, open to question; and according to the latest official estimate, as cited earlier, the area of reclaimable land is about 250 million acres. What is, however, more important and has to be borne in mind is that most of the reclaimable area is situated in remote parts of the country, the areas in which there are no communications and the climate is inhospitable or have to be rendered fit for cultivation by considerable expenditure of effort and resources. Almost the whole of this area is in North-East, North-West and the more inaccessible parts of South-West, and there is practically no cultivable waste in the densely populated provinces of the country. During the five years of the plan only 6.4 million acres estimated unculti-

vated but cultivable area would be made available for cultivation. Even if the rate of reclamation can be accelerated, large scale transfer of population of several scores of millions of agricultural population from the eastern to the western, north-western, north-eastern and southern provinces would have to be planned and brought about to realize a more even distribution of population within the country and this would necessarily, if practicable, take time. It is expected the extension of irrigation in the Yellow River Basin from 6.8 to 19.3 million acres will take place and the face of the arid loess region will be changed and the first phase of this project is scheduled to finish by 1967, and the extension of irrigation in the other areas would also take a long time.

The goal of socialist transformation of agriculture in China is large mechanized collectives in which all property rights have been extinguished. It is, however, clear that this has to be a very long-term project, and the form in which it will be realized will, to a considerable extent, be conditioned by the facts of the demographic situation.<sup>1</sup>

<sup>1</sup> In the words of Mr Chou En-lai quoted by the Indian Delegation on Agricultural Planning and Technique on Page 24 of their Report "There were large tracts of barren land in China of which 1500 million mou (250 million acres) were considered to be cultivable. But reclamation of the land is a costly affair. The cost of reclamation was about 50 yuans per mou (Rs. 304 per acre). Even if it was proposed to reclaim 100 million mou (16.5 million acres) of land, it would cost about 50,000 million yuans (Rs. 1,000 crores). In addition roads will have to be built, colonies put up, and other types of capital investment undertaken. At the present stage China could hardly undertake this kind of investment. Besides it was a very difficult social problem to emigrate people to new areas. People were tied to old places and developed habits, which were very deeply rooted. If they were moved to new types of soil and climate, they would find it difficult to adjust. Reclamation of new lands and settlement of new colonies in those lands were therefore not easy problems."

In spite of these difficulties reclamation on a scale indicated in an earlier chapter and planned migration of population of Hellingking, Kansu and other north-western provinces is taking place, and according to Chairman Mao a large reclamation programme is under serious consideration. This, however, it is clear, does not provide an outlet even for the annual addition to agricultural population and the pressure of population in the most densely populated parts of the country is bound to grow in spite of accelerated agricultural and industrial development of the country.

Industrialization has been proceeded with rapidly, but even at this rate additional employment for two to three million workers could be created in the first plan period and probably even with the most ambitious rate of development of modern industries not more than 3 million i.e. one-fourth of the additional population of the country at the current rate could be absorbed in these industries every year. Mr. Chou En-lai's statement referred to earlier that employment will remain an unsolved problem in China for a long time is based upon a sober appreciation of the existing position. In view of

What has been stated above or follows has to be co-related to the fact of a 'family planning' campaign, which was started in 1955 and has now assumed the dimension of a vigorous nation-wide drive for creating an active interest in and knowledge of the need for contraception, its technique and problems. The administration, the health services, the Communist Party, the Women's Federation, all other 'mass' organizations and the co-operatives of all types, have thrown themselves with their customary earnestness and vigour into this task, and a real campaign, comparable to the land reform and anti-corruption campaigns, is well under way which is being conducted with knowledge and understanding and without inhibition of any kind. Exhibitions are being organized all over the country, educative work is being promoted through the press, the radio, and other channels of mass communications, discussion groups are being organized in factories, in workers' clubs, universities, the countryside the co-operatives and what is most important by the network of the women's organization, and the health services are not only imparting knowledge of contraception and distributing contraceptives but also giving earnest thought to the practical and research problems of the programme. This development should enable the Malthusians to set at rest their fears in regard to China and enable all thoughtful students of world affairs to acquire a better understanding and appreciation of the approach of the Chinese Government to the practical problems with which they are confronted. The Marxian premises of the population theory have not been materially modified on this account, but nevertheless a programme of family planning on a scale unequalled in any other country or at any time in human history has been put into operation and is being pursued with real and energy with which all that is held to be important and worth doing from practical standpoint is undertaken and accomplished in new China. According to a statement by Health Minister Lu Teh-chuan at a Women's Conference in March 1957, the population of China is now increasing at the rate of 15 million a year and about 2 million infants and 200 000 more women survive after child birth than in pre-liberation days. All this cannot but have a strong impact on the minds of the people and lead to profound changes in their thoughts and behaviour.

these considerations it is necessary to make an objective estimate of the possibilities of the position on a chronological basis and relate them to the estimated increase of population. The assumption that the new economy would, as a matter of course, take care of a growing population would be a 'blind' assumption, i.e., not in keeping with the essentials of rational economic planning, and has to be abandoned.

A constructive approach to population requires that the whole population position in its integral, regional and specific aspects be carefully reviewed and constantly kept under examination. The rejection of the Malthusian theory and its conclusions should not mean that population planning is not needed and its growth can be left to the free play of natural forces. It also does not mean that the qualitative aspects of population are a matter of indifference, the problem of hereditary diseases is of no consequence or eugenic considerations need not be taken into account. In a socialist society unwanted children ought not to be born, parenthood should be voluntary and planned and the contraceptives should be used to space children and realize personal plan of family life and expression of individual needs in relation to work, society and the growth of personality. There need not be and is not any contradiction between the use of contraception on a discriminatory basis and the realization of socialist society; as a matter of fact, as just stated, the former is necessary for the latter. With the promotion of rational, scientific outlook, great change in the position of women and their full participation in the new life of China, it is certain that the size of family will not remain unregulated, and indiscriminate growth of population will not take place. Population planning is a necessary and essential part of over-all planning and needs most earnest consideration on the part of the individual and the community. Validity of this view is not being denied in China but is entitled to a fuller consideration.

The reported growth of population by 12 millions every year in China has been received with a sense of shocked surprise and even alarm in the Western countries. Mr. C. A. Fisher, for example in his broadcast published in the Listener

of April 1, 1955 refers to this fact in the following words: "The Communist rulers of China, while proclaiming to the world the astonishing news that their country now contains 600,000,000 persons are rabidly hostile to any form of family limitation and in fact regard it as contrary to the interests of the state. Whatever may be the explanation of this attitude, its consequences are alarming, and it is difficult to understand how this present annual increase of 12,000,000 can continue for a long time without catastrophe." He goes on to say that if it does continue, it would be a serious threat to the other countries of South-East Asia, for China will be 'driven to seek a solution of obtaining more lebensraum' in these countries and concludes that "age-old problem of demographic pressure from the north explains why the western powers have become increasingly anxious of late to build a more effective defence system in this region." The accelerated growth of population, as stated above, is not confined to China, though owing to the size of the Chinese population, it is of greater consequence than in the other countries, and is a factor of real importance in the world situation. Alarm and 'more effective defensive system' are no answer to the problem it raises and the re-adjustment of thought and action on the part of the western nations is unavoidable. The Chinese having discarded the view that over-population was the root cause of poverty and agonies of the Chinese people and also having overthrown capitalism, feudalism and colonialism, have now to re-examine the position in the light of the existing facts and prospects. Indiscriminate increase of number is not and need not be a part of Marxism and is not necessary for building up a socialist society. Expansion of population would probably be the next phase of China's demographic history. Reduction of the birth-rate, would, it is very unlikely, keep pace with the reduction of the death-rate. Contraception can and should be practised without accepting the validity of Malthusian approach, mastery of re-productive capacity has to be an essential part of rational and creative living and research in contraception and perfection of its technique are necessary both from the individual and social standpoints. No country can permit the increase of its popu-



lation at the rate of 2 p.c. every year for an indefinite period. The prospect of population of 1,200 million in China in 1983 and 2,400 millions 35 years later, i.e. 2,023 cannot be a matter for elation. Planned parenthood and planned population are not identical in significance or scope. The former is necessary for the latter, but has to be primarily determined by the considerations of personal life; and population planning, in its broad sense, should include many needs and considerations which are only indirectly related to planned parenthood. It is necessary, to repeat, to re-think out the whole subject; for anti-Malthusianism is only a negation and not policy. Implication of the growth of population not only in China but also India and a number of other countries have to be objectively considered from the national, but even more from international, standpoint. The West has to realize that Malthusianism as a basis of international population policy is quite inadequate and a more integral approach to the problem is called for. Mr. De Castre has, in discussing the population situation in China, stated, "In such a system, everything must be changed at once or nothing at all."<sup>1</sup> China having changed everything has to review the position in the light of the completely changed situation; and from the 'one world' standpoint active co-operation in the re-distribution of world's population and in the planned development of all the areas primarily in the interest of the peoples whose economic development has been retarded in the past is an inescapable necessity. The population position in China also makes it necessary to formulate and develop a constructive positive policy and promote a balanced study and understanding of the essentials of the subject.<sup>2</sup> Posterity has and must have the highest priority in China, and merely hang-over of an old and new sterile controversy not be permitted to prejudice its interests in shaping the future.

<sup>1</sup> Op. cit. p. 136

<sup>2</sup> It is necessary to add that the Chinese are not looking for 'Lebensraum' for their growing population. They feel confident that they will provide for it through expansion of production and make the necessary change in the rate of growth through family limitation.

## CHAPTER XVI

# THE GENERAL APPRAISAL

THE NEW economy of China is now a viable working system which means that it is capable of living, surviving, growing and regenerating itself. It has been established under conditions which have tested severely its capacity to strike roots, to produce the means for its sustenance and growth, to conserve protect and develop its gains and improve the living conditions of the people upon whose consent and co-operation its future in the last analysis must depend. It has stood the test well; and though its trials are not yet over and it is possible that it may have to meet crisis created by world events, the assumption on which the helmsmen of the economy are acting is that they would be able to steer it through all storms and stresses, to develop and make it invulnerable to all attacks and to develop further its creative possibilities from within. This confidence owes a lot to the revolutionary fervour through which the present position has been attained and is being maintained, but it is also in a large measure based upon the material results which have already been achieved and objective appreciation of the actual conditions and prospects. Analysis of the concrete conditions is held to be an essential condition for the application of the revolutionary theory upon which action has been based and to which its successes are very largely attributed. Any tendency to outstrip or disregard the limitations of the concrete situation has been and is strongly deprecated; and the combination of theory and practice, upon which so much stress is laid, is interpreted as enriching the theory through vital contacts with the facts and shaping the course of action in the light of actual experience. There are two extremes which the leading cadres are constantly warned against—the extremes of empiricism and adventurism. It is held that inability to avoid these extremes has in practice meant either unprincipled opportunism or betrayal

of principles or the reckless pursuit of the ultimate objective irrespective of the limiting factors inherent in the actual conditions. Avoidance of these extremes calls for fine exercise of balanced judgement, and it is held that Mao Tse-tung and his distinguished compeers have, through their chequered careers, in practice largely avoided serious errors of judgement; and the situation, in spite of set-backs and stupendous difficulties, been retrieved, consolidated and advantageously developed because both empiricism and adventurism have been guarded against with skill and success, firm Marxian convictions been combined with right assessment of the objective situation, and a flexible strategy has been adopted in practice.

"The Chinese transformation with all its speed and smoothness," in the words of Prof. J. D. Bernal of the Cambridge University, "is no miracle. It is the logical consequence of the application of Marxism to a semi-colonial regime"—and it "shows the power of Marxist ideas to direct changes of a kind far more rapid and daring than anyone had before conceived possible."<sup>1</sup> This view is also very firmly held by the builders of the new economy of China; and though its validity can be established only by co-relating the essentials of the Marxian theory with the historical genesis and development of the new economy, its chief interest lies in the fact that its remarkable achievements are explained by the helmsmen of the new economy themselves as, being due to 'the power of the Marxian ideas, to the universal truth of Marxism and Leninism, and, to cite the oft-repeated statement, its application to the concrete needs of the Chinese revolution. This being the explanation of the makers of the Chinese revolution themselves of their record of great successes in war and peace has to be given its due weight in the context of their words and deeds. Objectively speaking, the statements of the actors in a great revolution have to be examined with reference to the whole historical situation, its antecedents and, of course, its final outcome, and it is yet too early to say how far the Marx-

<sup>1</sup> J. D. Bernal, *Some aspects of Chinese Transformation. The Marxist Quarterly*, April 1955, p. 77.

lan interpretation of the Chinese revolution would, absolutely speaking, stand the test of time. The premises which have determined the course of the Chinese revolution are, nevertheless, of the highest importance, and their value is all the greater because experience has strengthened the confidence of the revolutionary leaders in the essential soundness of their premises, given to their views and understanding greater clarity and enriched their content. The Chinese revolution without its Marxian premises would be unintelligible, for these have been the chief motive force of its principal actors and the basis of their strategy and tactics in war and peace. The new economy of China has been conceived, initiated, elaborated and developed as an experiment in building up a socialist economy on Marxian principles. It has, as stated before, been profoundly impressed by the Soviet practice which has been largely drawn upon for operating and developing the new economy as a whole, for the co-ordination of its different sectors and the working out the technique of its new institutional framework, its internal mechanism of operation, regulation and control. Whatever may be one's reactions to Marxism as a view of life and world outlook, it is a fact that it has provided the new universe in which the Chinese revolution has come into being, is operating and has found the ultimate goal towards which its course is being directed. In plain words, the Chinese revolution is a Marxian revolution in its origin, working and destination and has to be evaluated as such.

The essence of the Chinese revolution and its driving force being its Marxian purpose, its animating principle has defined its character, movement and direction. There are many, however, who view the position differently. They regard it unfortunate that the Chinese revolution is Marxian in its approach, but all the same consider the main changes that have occurred as beneficial and essentially revolutionary in character. After nearly four decades of anarchy of varying degrees, the establishment of a strong government is in itself considered a change of fundamental significance. It is as a matter of fact after centuries of misgovernment that China for the first time has a government which inspires confidence and respect and exercises unquestionable authority over its vast

territories and enormous population. That this government is, also efficient, honest and free from the old evils of graft, nepotism and corruption gives to its strength a beneficent character and makes it an instrument of common good. That this government has put an end to the humiliations and serious disabilities to which the Chinese people had been subjected for a century or more by foreign powers, made the country truly independent and raised her international status is greatly to its credit, and this change also means not only a real revolution in China's position but has far-reaching consequences for the world as a whole. The elimination of feudal interests, the development of communications, the application of science to agriculture, enthusiasm for scientific knowledge and progress, industrialization of the Chinese economy, great advance in health services and education are all measures which have inherent advantages, are, in the context of Chinese history, revolutionary in character; but according to this view there is nothing particularly Marxian about these changes and their effects. They were long over-due; and the fact that they have been inspired by Marxism does not make them any the more desirable; and from this point of view, Marxism is not their substance but only an accident and their content and not the Marxian inspiration, makes them really revolutionary. Security of life and property, integration of the Chinese economy, establishment of an honest efficient government with a high standard of public service, termination of foreign control and interference, development of modern industries and communications, elimination of social parasites, and introduction of social services which are, by modern standards, essential for all good governments, and all taken together amount to a real revolution in China. They, however, could and should have been realized without Marxism; and the fact that the latter has, through a fortuitous concourse of events, become a part of these changes does not add to their revolutionary character, but offsets some of their manifest advantages and is from this standpoint really anything but a blessing.

The Chinese revolution, it is admitted, is an event of great historical importance, it has brought with it very beneficial results and China has, because of them, risen high in inter-

national esteem; but their merits are derived not from the impact of Marxism but the needs of the people and their urgency. This view has a semblance of logic, but apart from its strong anti-Marxian bias, leaves out the historical fact that without Marxism China had after 1911 nearly 40 years in which to redeem her position and establish a government for the people if not of the people; but all these years, even during the anti-Japanese war, administration of China remained inept, dishonest and, as is well known, extremely callous, and but for the determined resistance by the communists, the Chinese contribution to the defeat of Japan would, as the Stillwell papers clearly show, have had hardly any significance. The areas under the communist control, as pointed out in Chapter III, not only served as a laboratory of social experiment but also a demonstration of the Chinese ability to dedicate themselves to the interests of the people and build up an efficient administrative system. Marxism not only provides the keynote of the new economy, but the historical fact is that without the Marxian party the benefits, which the present regime has undeniably conferred upon the people, would not have in fact accrued to them. That these advantages could and should have been realized without Marxism is an interesting speculation, but from the practical standpoint it is futile and cannot alter the historical sequence of events which have culminated in the inauguration of the new economy and the realization of the great benefits during the last seven years. The inescapable objective conclusion, apart from subjective judgment on the merits and limitations of the Marxian approach, is that the new economy of China, historically speaking, owes its existence to the Marxian concepts and to the truly herculean efforts of those for whom the latter have been inspiration, guide and the informing spirit of their concrete measures and policies. The Chinese revolution, to repeat, is essentially a Marxian revolution and cannot be understood without its Marxian assumptions and implications.

It does not, therefore, follow that the Chinese revolution has been an unmixed good or some of its results, even on Marxian assumptions and within the limits set by the Chinese conditions, could not have been bettered. Every revolution

has its inevitable imperfections and its basic purposes and the qualities which it brings into play are conditioned by them. The Chinese revolution was born in the midst of war, has been developed through military strategy and victory, has still to reckon with serious dangers and it cannot relax its security measures in spite of the improvement that has taken place in the last few years. Moreover, all revolutions also involve over-simplification of issues, over-denunciation of the evils they are a revolt against and over-tones in the picture of the future which they seek to realize. They (the revolutions) are nevertheless needed for ending deadlocks, remedying the crying evils and releasing new creative forces. The position in China before 1949 had, as has been duly stressed before, become desperate, all springs of energy had been put out of action, sufferings of the people had become unbearable and they were in a state of blank despair. In order to understand the Chinese revolution and assess its achievement, it is necessary, to take, it may be repeated, into account its historical background and realize what a dead end the people had come to. These considerations are all important for understanding the Chinese revolution for it, as stated before, still bears on itself the marks of its birth, its working is largely determined by the dangers to which it has been and still is exposed and by the assumption that its future depends upon its getting the better of resistance from within and the danger of aggression from without. The Chinese revolution is, for all these reasons, to be interpreted with due understanding of its historical framework and should not be appraised as if it had come out of a social void and has a stratosphere of its own to function in. The limitations of its origin and the present position have to be allowed for, and it has to be realized there are also limitations inherent in the very premises of its thought and also in the faults of the qualities which the revolution has called forth and which have made the revolution possible. In other words, imperfections of the Chinese revolution are also a part of the revolution itself and its character, scope and results have to be appreciated with full insight into these imperfections as much as its positive achievements and contributions.

The Chinese revolution has been described by Mao Tse-tung as 'new democracy' and later as 'peoples' democracy' or 'peoples' democratic dictatorship.' The new economy of China has also to reflect and express the essential character of the revolution; and if it is a democracy with a difference and is both a democracy and dictatorship, it is necessary to know how the new economy partakes of this characteristic and fulfils its purpose. The revolution is taken to be a new democracy as distinguished from bourgeois democracy because it does not install the bourgeoisie in authority and as a democracy it has to work for the consummation of a socialist and not a capitalistic society. It is both a dictatorship and democracy because the discredited capitalists, the ex-landlords and the undependable elements like the rich peasants and capitalist merchants are definitely distrusted and disenfranchised and do not participate in the building and working of the new institutions. These classes are treated as potential enemies of the new economy, are kept under a vigilant watch and purposely discriminated against in filling all positions of trust and authority. This discrimination is, according to the theory of the new polity, the purpose and the measure of its dictatorial character, otherwise it is fully democratic in its purpose and working and functions for the best interest of the people and through them. Its dictatorial aspect is, according to this view, indispensable for its success as democracy without it would become a disguised tyranny exercised for the exploitation of the masses. Apart from this view, which is Marxism in action, it is necessary to know how far the polity, and therefore the economy, is essentially democratic and fulfils its real purpose. Is it new democracy merely, as it is often stated, as a camouflage for its non-democratic and anti-democratic character or does it really signify the substance, if not the form, of democracy?

Answer to this question raises the whole issue of what is democracy, how should it function and what should be its basic purpose? It is obviously not possible to write a discourse on the theory and practice of democracy in seeking a clarification of the points raised by this issue in relation to the working of the new economy of China. A few points, how-



ever, can with advantage be briefly stated. The state being the most important factor in the direction and management of the economy, its political apparatus is of importance for its operation. Even if the state in China is taken to be based on consent, the forms through which it is expressed are very different from those which are in use in parliamentary democracies; and those who are used to the latter are and have reason to be sceptical of the peoples' democracy as an instrument of expressing the general will of the people. Political system of China is highly centralized, the communist party is controlling and directing it, all important decisions are first taken by the Executive Committee or Politbureau of the Communist party and the state government, as a rule, agrees with them, or rather as the same men are in power in the Government and in the communist party, the decisions are formally expressed in two ways i.e. the decision of the communist party and those of the state council or cabinet. On this point there is no room for the difference of opinion as in fact all major decisions are announced in the joint name of the Communist party and the Peoples' Government, and the former is always given precedence in the joint declaration of policies and decisions.

There are representative institutions from the directly elected committees at the basic level to indirectly elected representatives' conference at the Hsien, Provincial and Central levels; and these do provide forums for the expression of opinions, for discussions and even debate within limits, important laws are passed by the National Peoples' Congress and their sessions are used for submitting reports and making statements. These institutions, however, are not Parliaments in the ordinary accepted sense, the clash of opinions do not arise at the sessions; there is no opposition worth the name and the Governments are neither made or unmade by parliamentary votes nor do they owe their position to election. There are non-communist parties in the country; but the communist party is the leading party i.e. it is the only party that matters and the other parties, though actively associated with it in the execution of policies, are not in a position to take a line of their own on important matters. They are, it may be

assumed, consulted before the final decisions are taken, but the communist party's point of view is the prevailing point of view and, as stated above, its decision as a rule, becomes the decision of the state. The principle of democratic centralism requires that supremacy of the central state council should be recognized, all Provincial and local governments be subject to its control and whenever there is difference of opinion between the higher and lower governments, view of the former should prevail. At the basic level there is direct democracy, the executive committee members are elected by the voters and are responsible to them; they have to convene the meetings of the voters often and are subject to their criticism, direction and control. The political system, as a whole, however is very differently constructed from the parliamentary political systems and it has still to develop its own safeguards, correctives and modes of effective formulation and expression of views.

This conclusion is, however, not entirely unfavourable to the Chinese political system for the students of parliamentary democracy know that its revision, it is clear from the experience of its working, is called for; and though it has not been found easy to suggest concrete means and measures by which its revision can be carried out, there is a growing agreement of opinion that it should (a) eliminate the power of wealth in the working of the parliamentary institutions (b) put a premium on thought, maturity of judgment and wisdom in policy-making and administration, secure continuity of policy and make it difficult for political bosses to acquire or exercise power (c) provide safeguards against clever orators swaying elections and judgments, and also against clever party managers and utilizing passions and mass feelings for winning elections, confusing the issues and clouding the judgment. (d) reduce the intensity and importance of party warfare, develop as far as possible non-partisan mentality in discussing and deciding important issues, educate the voters and appeal to their minds and not their prejudices and passions for securing their active consent for public policies and measures and (e) recognize the obvious fact that the primary voter as a rule is in no position to form or express judgment on basic and

complicated public issues; and therefore the need for a hierarchy of levels at which decisions are to be taken in the ascending order of importance has to be admitted and as far as possible provided, for Parliamentary democracy as an institution has been and is under criticism and its inadequacies, as means of political education of the people and of transacting serious public business of the community, have been made so clearly manifest by the actual experience of its working in all countries that no serious student of political science can and should dismiss out of hand the other political systems, merely on the ground that the latter have serious inadequacies of their own and in some respects compare unfavourably with the parliamentary institutions.

Freedom is and should be the essence of democracy in its political aspects and should not be lightly sacrificed. The political system of China imposes serious restrictions on personal and social freedom which should neither be denied nor explained away, but it also has merits which, in the opinion of political thinkers, parliamentary democracy should definitely acquire in order to serve the higher interests of mankind and survive in a rapidly changing world as an instrument of creative community life. Wealth has no power in Chinese politics, the men in authority do not owe their position to the gift of the gab and a process of selection has been adopted which prizes maturity of judgment and wisdom, passions and prejudices have not been eliminated altogether but definitely discounted as decisive factors, elections are not swayed by arousing and utilizing mass feelings, non-partisan approach to public issues is being fostered and developed, minds of the voters are being informed and educated and hierarchy of judgments is being recognized and provided for. These advantages are being realized only in incipient forms; channels for their full developments have still to be created and they have to be linked to the supreme need for free expression of thoughts and views. The Chinese political system is not a parliamentary democracy, but it is also free from some of the admitted serious defects of the latter and as just stated, has advantage of its own, not yet fully developed or realized, which may, in due course, invest its working with a significance of

its own and make it valuable for solving the age-old problem of taming of power which has still to be satisfactorily solved.

Parliamentary democracy, in spite of its certain merits, is fortunately not the climax of the political thought or achievements of man; if it were there would be no prospect of our being able to face or adequately deal with the tasks of the future. It has to be altered, modified and greatly improved; and should not be taken as the standard for judging political thought and endeavours in countries like China where different political systems are being experimented with and developed to answer the specific needs of planned socialist economies. These systems also carry the impress of their immaturity on their face and cannot be held as models for other countries, much less for all times to come. They have to grow from within, shed some of their contingent characteristics and solve the old riddle of combining authority derived duly from appraised fitness for and proper discharge of social functions with freedom of the masses for whose benefit and with whose intelligent consent the authority should be exercised. This riddle has not been solved as yet; and creative social engineering of the highest order would be needed, and, in the context of the present world situation, also long period of peace free from haunting sense of insecurity before its solution can begin to take shape. China and the other communist countries may, given circumstances favourable for orderly development of their political and all other social institutions, be in a position to make valuable contributions to the pool of common experience for solving one of the most intractable problems of community life—i.e. the problem of taming and channelizing public power, power derived from the community and used primarily and entirely in its service.

The bearing of China's polity on her economy is that, besides the state power being fully utilized for financing and developing it, it ensures the paramountcy of the public interest in the working of the economy, provides consistency and continuity of policy in its development and its economic and political structures are built up and administered for their mutual benefit and assistance. In the economic institution also the principle of democratic centralism is followed, attempt is

made to secure direct representation and active participation of the primary members at the basic level and the super-structure is raised through indirect and territorially widening system of representation till the apex is reached and the topmost committee of management is constituted which operates on a nation-wide basis, acts in concert with all other committees at national level and co-ordinates the policy of the organizations with the state policy and the policies of the other organizations to the extent to which they are interconnected and their co-operation is needed in the interest of the economy as a whole. The fact that primary members are directly associated with and actively participate in policy-making and administration at the basic level is very significant. It gives opportunity to millions of men and women at the level which is of immediate and direct interest to them to develop interest in, acquire understanding of and to show their ability in administration and intelligent discussion of the matters of importance to the entire body of members and the community. The primary members of labour unions, of consumers' co-operatives, of co-operative marketing and supply societies, of handicraft co-operatives, of farming co-operatives and mutual aid teams and of the various other mass organizations are actively engaged in a democratic process of great importance, through experience they are getting insight into the working and the problems of administration of the economy, and being given education in real grass root democracy at the level which is within their reach and understanding and which can become a stepping stone for them to rise to higher levels of policy-making and administration by their intelligence, devotion to public duty, initiative and capacity to inspire confidence and for working in real team spirit. Criticism and self-criticism, which are in China considered indispensable for the working of democracy, are meant to be freely exercised particularly at the basic level. Through the participation at the primary level new cadres are discovered, given opportunity to show their worth and ability, afforded opportunities for training and qualifying themselves for their work and for higher positions; and a process of natural selection of leaders is set into motion which discourages scramble

for power through manoeuvres, glib talking, group and party alliances and other undesirable means. The enthusiasm and initiative of the masses, which the new economy has evoked abundantly and utilized to such advantage, have been created, besides, of course, the impact of the fundamental social changes and the termination of social parasitism in all forms, by the democratic process which is operating on a mass basis and providing direct experience to the people of the new economy in action and its immanent purposes. The limitations of the Chinese polity are counterbalanced by the extensive participation of the people in the work of economic construction and administration on a truly democratic basis and provide a factual basis for the view that the new society is "peoples' democracy"—i.e. a system which works for the people and largely through them.

Democracy, by common agreement, is more than merely a political mechanism or an organizational arrangement. It is and has to be an adventure of the realm of spirit and a way of life. The new economy of China has, from this point of view, its intangible aspects which also need to be understood for the appraisal of its nature and operation. The new economy attaches the highest importance to the expansion of production, to industrialization and particularly the development of heavy industries, to the rationalization and modernization of agriculture and to the improvement of the technical level of cadres and the workers in all fields and at all levels. The emphasis, however, is combined with the understanding that production is essentially not a technical but a social process, and besides being the source from which the community derives its sustenance and material basis for growth, is of fundamental importance as a means through which human values express themselves, are conserved, realized and made effective for the growth of individuals and the well-being of the community. The Marxian view that labour should not be a commodity in a rational, socialist society but the source and measure of all values is in itself an affirmation of a great ethical imperative, and if clearly understood and carefully and intelligently applied, cannot but humanize production and make its processes humane in their purpose and

performance. The full application of this view is and cannot but be limited by the wealth and income of the nation and the technical level of its development; but as the primary purpose of economic construction is and must be fuller realization of human values, even in the initial stages of its transformation this view has to be steadily and consistently kept in the forefront of social endeavour and, within the limits of the available means, applied as fully as possible. The essence of human values is the spirit of true fellowship and its manifestation in action by which the health of body, mind and spirit of the people is conserved, social relations, including relations in production, express an attitude of real concern for the well-being of the producers, the good of the community and the preservation of genuine co-operative spirit in the internal economy of every economic enterprise; and through equality of opportunity, discovery and cultivation of talents and provision of personal and social incentives the best in each is brought out and used for individual growth and social good. This spirit is essential for democracy in action and, it alone can give to it a real meaning in the life of an individual and a fuller content to the articulate life of the community. As a way of life democracy can be a success only if human values, as briefly indicated above, are given their due place in a country's economy and become its sustaining, guiding and moving force.

This spirit is present in the new economy of China and is expressing itself in a multitude of ways. The very impulse behind the revolution being emancipation of the masses from the bondage of ages, the whole atmosphere is charged with the special solicitude for the welfare of the classes who in the past were exploited ruthlessly and denied all opportunities for personal growth and advancement. With these impulses is combined a firm conviction that these classes have immense creative possibilities and their ability, potential initiative and intellectual and artistic gifts are unlimited wealth of the community; and if properly tapped, their exploitation would be put an end to and the country would be enriched in the best sense of the word beyond the dreams of the most ardent visionaries. This convic-

tion accounts for the workers and the poor peasants being given full opportunities to train themselves for all responsible positions, the short-term schools being attached to all higher institutes through which they can qualify themselves for admission to the latter and become technically competent to occupy positions of authority in the working of the economy. In economic enterprises, as already indicated, the workers' initiative is highly prized, fostered and developed, and they are placed in a position to take positive and constructive part in the planning and administration of the enterprises in which they work; and there is a constant endeavour to discover ability among the workers and promote them to the managerial posts. Measures for preserving and improving the health of the people, raising their cultural level and providing wide and varied opportunities for acquiring and developing cultural interests, and making merit the only test of admission to the higher institutes and universities and providing free tuition, and if necessary, board and lodging for all students are all intended to treasure and utilize the latent capacities of the masses and express boundless faith in their ability to guarantee their country's and their own future. This faith has, as pointed out before, been justified and strengthened by the results which have already been achieved and its ardour is now greater than ever. The new position of the women in the Chinese economy not only rights a great historic wrong, provides opportunities for richer emotional life to them and enables them to use their abilities to the full but changes the whole basis of the economy, makes it a common adventure of both the men and the women and introduces the spirit of a real home in its working. Again the results already achieved indicate the soundness of the new approach and its real democratic content. Attitudes towards and new relations with the minorities are also an expression of the same spirit and have already shown what genuine faith in fellow men can do to open new vistas of hope and amity in human relations. New life in the villages and all that it means in terms of production, creative effort, cultural renaissance and human happiness is, it is needless to add, the most significant manifestation and realisation of the new democracy. Life of self-imposed auste-



rity which all are sharing in order to build the future and the narrow range to which inequalities of income and wealth are limited and which, it may be hoped, will not be unduly widened, are, of course, new democracy *par excellence*. Equality and fraternity are the new economy's special acquisitions and assets and to these liberty has also to be added for the vast majority of the people are now experiencing freedom which they have never known before, though liberty in the context of the new political structure is subject to real reservations and their mitigation and removal is necessary for fuller realization of democratic spirit. All these facts point to the conclusion that democracy as a spirit of true fellowship and co-operation is a reality in China and gives to the new economy its most distinctive and fruitful character and significance.

As stated already, the communist party is the mainstay of the new economy of China; and though in the constitution of the country, in the organic laws, in structures of its new institutions like the People's Bank, the farming, the trading, the industrial and the credit cooperatives, in the regulations governing the state-owned commercial and industrial enterprises and in the organization of the educational, scientific and cultural institutions there is no specific provision for the communist party or any indication that it is to have the key position in the new economy and its administration, it is yet a fact that the communist party, as stated before, controls and administers the whole economy, no major decision can be taken without its express consent and approval and the main responsibility for defending, managing, regulating, steering and developing the new economy rests upon its shoulders. Most of the important positions in the state structure, the defence forces, the economic enterprises, the mass organizations, the educational and cultural institutions are all held by the members of the communist party, and the latter work under its directives, are subject to its vigilant supervision and can be and are called to account by it for lapses in the discharge of their duties. They receive their assignments from the Party Executive, are responsible to the latter and can be and are transferred to any new assignments, possibly in a very different sphere and of course to any part of the country, and have

to maintain an unblemished record in their private life. With the responsibilities go special obligations which make it necessary for the members to maintain high standard of performance, have to be completely above suspicion as far as possible, be the custodians of the integrity of the Party policy and put it across to the people successfully through their influence and example. The communist party is in fact the ruling party of the country and all levers of authority in the new economy are in its hands.

This is an all-important fact, and it is necessary to understand its significance in relation to the economy as a whole and its place in the 'new democracy.' The Communist Party is a party of members who form it on a voluntary basis, submit to severe tests which are applied to new admissions, are subject to the rules of discipline which are known to be very strict and exacting, have to carry out its decisions without any demur or hesitation and are severely penalized for any tendency to manoeuvre for power, position or any group alliances within the party. It is like all communist parties, a monolithic party,<sup>1</sup> and its members are subject to strict discipline, are under an obligation to obey orders implicitly and carry out party directives and their own ability and initiative are used to win and maintain support for the decisions which are to be put into effect. In June 1956 there were 10.7 million members of the Communist Party, only 1.74 p.c. of the total population, but they represent not only the highest authority but great concentration of power in the country.<sup>2</sup> Its members like all citizens, are subject to the laws of the state and have

<sup>1</sup> On the 30th anniversary of the communist party in 1951 Mr. Liu Shao-chi gave the following figures in his speech "Our party has now 5,800,000 members. Among these more than 2,700,000 are serving in the armed force, state organs, factories, mines and schools and over 3,000,000 are distributed through the countryside. There are over 600,000 women members and over 1,200,000 young members under the age of 25. These members have built about 250,000 Party branches, the basic organizations of the Party"

<sup>2</sup> Of the 10.7 millions 1.5 million were workers (14 p.c.) 7.4 million peasants (69.1 p.c.) 1.3 million intellectuals (11.7 p.c.) and .5 million others (5.2 p.c.) 10 p.c. of the total members of the party were women. It is clear that, in spite of the increase of number of workers in the Party, it still largely remains a party of peasants.

no exemptions, privileges or special dispensation for their benefit; but all the same they, as members of the communist party, are in a very special position, they are not a state within a state, but its very core—the force which moves it, keeps it on the rails, sets its direction, regulates its speed, assesses its results and determines its future course. The Communist Party is completely autonomous, is not subject to any regulations and is accountable only to itself. This description of the functions and position of the communist party can be cited to support the view, which is sincerely held by its critics, that the Chinese economy is really a totalitarian economy, its democracy is only a veneer and the communist party, which in itself is a totalitarian organization and completely controls the economy, represents irresponsible power which is used without any reference to the wishes of the people. This view directly contradicts the conclusion of the preceding paragraphs and has to be examined with care.

The authoritarianism implicit in the constitution and working of the communist party is not denied by the communists themselves, is considered necessary because the party is taken to be vanguard of the revolution and dictatorship a necessary part of it; it has to assume the leading role in inaugurating and carrying out the revolution because without it neither its success can be ensured nor counter-revolution effectively combated. The communist party has, according to this view, to be a well-knit and disciplined party otherwise it would not be equal to its historic tasks. Its history shows that without strict discipline it could not have won the position it has won for itself against the overwhelming odds; and even now the immensity of the task which it has undertaken makes it necessary and the dangers to which their country is exposed makes it essential that its members should maintain and jealously guard the solidarity of the party, and directives of the latter be followed without question. The communist party, having been the decisive factor in bringing the revolution to the present level of its achievement, has to complete it by guiding its development step by step and realising its possibilities to the full. A well-organized and a well-disciplined Marxian party is, on the

assumption on which the Communist party has been and is acting, indispensable for the success of the Marxian revolution in China. The point, however, which needs to be clarified, if party like the communist party is needed in the existing circumstances in China, is whether its existence and operation on the Marxian premises is compatible with political, social and economic democracy. If parliamentary democracy is not to be taken as the only form of democracy or its highest or final expression, the underlying principles and working of the communist party have to be appraised from a broader standpoint than the one which is held valid within the limits of a parliamentary political system. The communist party having created the revolution in China and brought it to its present position, cannot, from the broader standpoint, be treated merely as an organ of totalitarianism and in its working and effects an anti-thesis of democracy.

The strength of the communist party and its success has been due to its having identified itself with the people, given them self-confidence and the capacity to understand and defend their interests and worked with earnestness and clear purpose for their well-being. That in China it has been and is a party of the people and worked with a single-minded devotion for their welfare and liberation is borne out by the facts of the Chinese history since 1934, and even 1921. The Long March is not only an epic performance in itself but a measure of the devotion of the communist party to the needs and the good of the people. Throughout the years of the struggle upto 1949 they have served their country and people with perseverance and a real spirit of consecration and shown understanding and organizing capacity of a high order. Their rise to power has materially changed the situation; but the results being what they are, their interest in and efforts for promoting the well-being of the people have not, it is evident, in any way abated. The fact that they are the ruling party has created new problems, the problem of guarding the party against the corrupting effects of power, the problem of educating the new and younger members of the party, whose proportion has been and is increasing, and training them to realise and maintain high standards in performing the much more

complicated tasks of administering the country and developing and completing the revolution and lastly the problem of maintaining living contact with the people and fulfilling their tasks with their intelligent co-operation, full support and largely through their efforts. The communist party, it is clear from the published documents, is fully aware of the importance of their new problems and has succeeded in a large measure in making the necessary re-adjustments. The communist party is in power, its members are occupying almost all important posts and, as stated above, all levers of authority in the new economy, are in their hands. They are, however, still the peoples' party; their devotion to their needs and their future has not diminished and they are making special efforts to maintain their confidence, mobilize them for their new tasks and develop their innate capacities to the utmost. If totalitarianism means coercive imposition of policies and views on supine or resentful people, the communist party is not in that sense, totalitarian in its objects and methods. Its efficient organization and firm faith are known to be very necessary for effective action, but without active co-operation and understanding on the part of the people, they also know, they would not be adequate for their tasks, and this knowledge has stood them in good stead in dealing with the people and their problems.

Moreover, it is a part of their working theory that they have to sum up the experience of the people and learn from them before they can lead them with success. Close contact with the people is held to be necessary not only for winning and maintaining their confidence but getting insight into their common experience, understanding its significance and using it fully for the development of their work. An attitude of humility towards the people is being constantly enjoined upon the members of the communist party and they are required to avoid with the utmost care 'commandism' i.e. the use of dictatorial methods in the performance of their duties. For a party in power and in a dominant position, it is not easy not to dictate measures or persuade the people to adopt them through their own understanding of their need and importance; and the fact that continuous warnings are still necessary against re-

lapsing into this habit shows that the temptation to follow the line of least resistance and demanding acquiescence rather than winning co-operation cannot unoften be resisted in practice. The general approach, however, is clear, and the norms of conduct are reported to be mainly determined by it. In the working of the Party itself the need for 'internal democracy' is emphasised and is, according to the available accounts, largely practised. Solidarity of the party is not taken to mean the suppression of dissent or complete conformity in thought. All important decisions of the Party are, according to the established procedure, preceded by free and full discussion at all levels and are taken on the basis of the greatest measure of common agreement. The majority opinion prevails, the minority has not only to accept it but to carry it out loyally; and once the directive is issued, all have to present a common front in words and deeds. The difference between this process and the process ordinarily adopted in what is generally known as democratic formulation of policies is that the dissentients are expected to merge their own opinion in the final opinion of the Party as a whole and put into effect the latter, as stated above, with unquestioning loyalty. All these considerations indicate that taking the communist party, as it is, with its faith, organization, premises, position and its *modus operandi*, it is in its constitution, working, aims and practices not a negation of democracy but its specific though imperfect expression.

Being avowedly a party which stands for 'dictatorship' as it understands it, its ways and methods need to be understood, interpreted and assessed in the entire context of its theory, practice, performance and the fruits of its action. The fact that the new economy of China has been created by the communist party and its continuous assistance, guidance, vigilance and organized strength are needed for sustaining and developing it, is the basic fact of the situation and is not a matter of opinion. The fact that the Party has so much power and has certain premises of thought and action has its inherent limitations which are different but not distinctly more serious than the limitations of the alternative premises of thought and action. Its position and functions being an integral part of the new economy of China, it has to be understood as such and

in the context of the economy as a whole. It may be hoped with experience, growing sense of security, easing of world tensions and maturity of revolutionary thought and practice the communist party will also acquire a more balanced and objective understanding of its own position and also greater poise, catholicity and appreciation of the vital need for and importance of freedom for growth in a socialist society. It has to learn to see itself as others see it. That would be an indication of the growth, maturity and realization of the need for 'constant practice of criticism and self-criticism' on which so much stress is laid in the internal administration of the party and the economy. It may be that the Party would eventually develop into a non-party organization, evolve the technique of taking decision by general consent without having to take into account the majority and minority views and transcend the need for militancy in theory and practice. That would be in the dialectic line of its evolution when counter-revolution and its contradiction, the revolution, both become a matter of historic past. That, however, can happen, if at all, when the Marxian millenium in which the state will wither away is somewhere in sight, but until then the communist party can increasingly temper its militancy with considerations for the points of view other than its own, create conditions for the development of concord between antagonistic elements in the community and extend more and more the area of international understanding and agreement. This is the direction in which the Chinese economy has to move on its own working hypothesis, and the sooner it moves through the deliberate action of the communist party, the prime-mover of the economy, the better it would be for its growth and the fulfilment of its avowed inner purpose.

The points mentioned above are already receiving consideration in China. After XX Congress of the communist party in Soviet Union and subsequent events in the countries of Eastern Europe it has become more urgent than ever to realise that there are very serious dangers inherent in the power and position of the communist party, and even terror as an instrument of policy can be and has been condoned in practice in the name of democratic centralism and led to re-

volting miscarriage of its real purpose. Experience of the Soviet Union has a great negative as well as a positive value, and it is as necessary to learn from the former as from the latter. With greater balance of power already attained by the communist countries, it is and should be possible for them to emphasize the importance and need for freedom of thought and expression, not only permit but also promote diversity of views and take stern measures against arbitrary exercise of power and its gross abuse in practice. Regular periodical meetings of the party at different levels, for which specific provision has been made recently in the new constitution of the Communist Party of China, would be an important step in 'democratization,' but the spirit in which it works would be far more important than the changes in the constitutional provisions. The recent events have carried such a clear warning against 'monolithic' character of the party becoming a real nightmare, and it is necessary to underline the importance of civil liberties, of internal democracy of the Party and of creating an atmosphere in which thought is really free and can be creative in the best sense of the word<sup>1</sup>. Allowing for imper-

\* <sup>1</sup> A reference to Chairman Mao's Statement made on February 27, 1957, which has been widely publicised, is needed to indicate the present position in this regard. The cardinal point of the Statement, to quote the author's own words, is that "in settling matters of ideological nature or controversial issues among the people, we can only use democratic methods, methods of discussion, of criticism and education, not coercive or high-handed methods." This statement not only permits dissent but regards it essential for growth; and 'blossoming of a hundred flowers and contending of a hundred schools' to use the figures of speech used in this Statement, can be taken to point to need of higher unity through diversity of views and freedom of expression.

After the statement was made a debate has been in progress in China. On the one hand the Communist Party has embarked upon what is called self-rectification campaign,<sup>1</sup> i.e. it is inviting criticism of its measures, policy, personnel and is reported to have taken corrective measures against the mistakes which can be brought home to it through free and fair criticism. On the other hand a large number of 'the rightists'—mostly 'middle of the road' intellectuals—have come in for severe criticism owing to their actions, according to the official view, being directed against socialist transformation and the leadership of the Communist Party. The criticism of the rightists' has assumed large dimensions and taken a very severe form.

In the context of the existing situation it is quite clear that



fections of all revolutions in practice the stress on what are ordinarily called democratic values would be a real service in the context of the existing situation and the needs of the future. This is as essential for the healthy development of the economy as for the growth of the community itself. The fact that to so many freedom under communism seems to be a contradiction in terms is of primary importance for re-valuation of its theory and practice. The problem of right relation between freedom and authority, which has been found full of perplexities in every social order, becomes even more difficult

displacement of the Communist Party and reversing of socialist transformation are not only impracticable but also undesirable. Rectification of the policies and the pattern of behaviour of the Communist Party is called for but can be carried out with advantage only within the constitutional framework of the country which definitely provides for and enjoins socialist transformation and leadership of the Communist Party. Parliamentary system, as stated already, has its merits but also its limitations. Any way, any attempt to introduce it in China at present cannot but be resisted and would show a lack of understanding of the real significance of the historical sequence of events.

It is, however, a matter of the utmost importance that with the decreasing sense of insecurity there should be a definite abatement of the dictatorial character of the regime and to use the Chairman's words again 'contradiction among the people' should be resolved by democratic methods, i.e. "far from compelling them to do this or that" complete reliance must be placed on 'the democratic methods, education and persuasion. This education is self-education among the people and criticism and self-criticism is the fundamental method of self-education'. Chairman Mao's view that 'socialist society grows more united and consolidated precisely through the ceaseless process of correctly dealing with and resolving contradictions' has to be increasingly acted upon and the use of coercive methods reduced to the very minimum. "Struggle in the ideological field" has to be waged but "crude, coercive methods should not be used in this struggle but only the method of painstaking reasoning" (Mao's words).

This is the right lead and has to be followed with understanding and determination if the Chinese economy is to transcend its limitations. It is not possible for the Marxists to grant that non-Marxian 'world outlook' can also provide a valid basis for socialist transformation; but the assumption, that it (non-Marxian world outlook) may, must necessarily be part of democratic process. At any rate, painstaking reasoning; for which Chairman Mao puts in earnest plea, must be taken to imply that the non-Marxism outlook is perfectly legitimate even if its validity is open to question from the Marxian standpoint and has to be given its due consideration.

in the revolutionary context. A revolution which can go beyond the limitations of its history, and acquire confidence in its capacity to face the future has to find a way of dealing with and solving this problem. There is no practical alternative to the Communist Party in China; and its achievements indicate that it may be able to realize the substance of democracy in spite of the fact that a parliamentary system cannot be introduced or developed in the concrete situation which exists in China. It may, provided the future events are favourable, be possible to work out a real *modus vivendi* in which authority and freedom become really complementary in practice and not mutually exclusive in any sense of the word.

This object is of special importance in the working and the development of the economy and has to be steadily kept in view. Now that a framework of a socialist society has already been created in China through transformation of industry, trade, agriculture and handicrafts, it is essential that the problem of economic democracy, of the development of social techniques, of the flexible management of economic enterprises on a truly co-operative basis, of economic differentiation and integration, of the preservation of human values in the working of the planned, regulated and controlled economy, of combating bureaucracy in economic administration, and similar other issues should be faced and solved. It is admitted that experience of the Soviet Union is, in this respect, only of partial value, and she has in practice in economic sphere also committed very grave errors. Value of her pioneer work lies in the fact that its shortcomings, serious or otherwise, have to be and should be consciously provided against. An objective analyses of the Soviet economy, its successes and failures, is necessary for the purpose, experience of other countries can and should also be drawn upon freely and the unfoldment and fulfilment of the purposes of the new economy should be realized with increasing adequacy. Conditions in China require that it should not only avoid mistakes of the Soviet Union but also make contributions of her own to the development of the theory and practice of a socialist economy in the making. Planning, administrative co-ordination, working of the price system, supervision of the masses over the

state organs and economic enterprises and many other cardinal features of the new economy raise issues which can be dealt with only by a truly scientific approach—i.e. without any doctrinaire assumptions or inhibitions. Future of the economy would largely depend upon the success with which these problems are faced and creatively solved. Re-education of millions of people, who have been recently brought into socialist economy, needs organizational work, but more than that it requires understanding of and social efficiency in dealing with human beings both in mass and as individuals. Increase in production and the introduction and development of new techniques in agriculture and industry are important, but even more important are the social techniques of changing men's minds, attitudes and patterns of behaviour and developing an economy, which would realize fully 'socialist values' and reduce the risk of deviations from them to the very minimum. This is necessarily a 'slow and prolonged' process and future of the economy, to repeat, would mainly depend upon the success with which it is completed.

Planned socialist transformation of the country raises the issues referred to above which would tax the resourcefulness and capacity for integrated advance in many directions on the part of the topmost leaders of the Chinese economy. Among them, as stated above, the most significant and really of the most fundamental importance is the problem of the transformation of the erstwhile independent agricultural and industrial producers who were until recently in overwhelming majority, into consenting active members of a socialist society. It has been estimated that there were about 110 million agriculture farms in China and about 20 million independent artisans and craftsmen. Socialist transformation of these small, dispersed units of production presents one of the most difficult problems of social construction and re-organization. *There can be hardly any difference of opinion that formation and development of the co-operatives is the right road to the goal of bringing these millions of independent producers with their own private means of production into the framework of a socialist society, but that does not make the problem any easier or guarantee that its inherent difficulty will not create*

serious obstacles in the way of their socialist transformation. This point is fully understood in China and its importance appreciated. In the words of Lenin these millions of "small commodity producers cannot be driven out or crushed, they can and must be remoulded and re-educated by very prolonged, slow, cautious organizational work," for "the force of habit of millions and tens of millions is a most terrible force. It is a thousand times easier to vanquish the centralized big bourgeoisie than to vanquish the millions of small owners; and yet they by their ordinary everyday imperceptible, elusive demoralizing activity achieve the very results which the bourgeoisie need and which tend to restore the bourgeoisie." This point is even more forcefully brought out when Lenin states that "small production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously and on a mass scale." This view has been fully accepted in the programme of the transformation of the Chinese economy and accounts for the planned accelerated development of the farming, industrial and trading co-operatives. In the Soviet Union owing to the urgency of the situation the pace had to be forced in this respect and created, as is well known, severe strains in its economy. Collectivization of agriculture is a more radical measure than its co-operativization; but even the latter is a change of such far-reaching significance and has to reckon with, in the words of Lenin with "the force of habit, the strength of small production for those small commodity producers by their ordinary, every day imperceptible, elusive activity' engenders capitalism all the time" and have to be re-moulded and re-educated completely before China can be made safe for socialism.

This transformation is in progress, its tempo is increasing the increasing industrialization of the country, adds greatly to its urgency and importance and the growing population make it all the more imperative that the change should be completed with the utmost speed and without causing any serious dislocation of the economy. In the transformation are inherent the problems of the displacement of labour on a mass scale, the need for finding fruitful subsidiary and even primary occupations for

labour whose disguised unemployment would, through this change, become massive guiseless unemployment, the problem of more even territorial distribution of population and of reclamation of soil on a much more extensive scale. All these problems raise the organizational problem of great immensity. China having embarked on socialist revolution to quote from Lenin again, 'as a result of turning point in history,' has to go ahead with this transformation. Mao Tse-tung has recently made it quite clear that there can be no turning back in the transformation of the small commodity producers. If force as a major instrument of social policy has, both from practical and ethical standpoint, to be renounced as a method of this socialist transformation—and the Soviet experience clearly points to the conclusion that it should be—the situation becomes really a great challenge, and if the Chinese can meet it with success, they would be rendering a great service not only to themselves but also to many countries in the world for still dispersed production by multitudes of owners is very widespread and is very seriously blocking the advance of socialism. It may be hoped that it will be understood that real problem is not technical but essentially human. Advance of technique may make it possible through distribution of power on a decentralised basis to have small but efficient and low cost units of production on a wide scale in industry and agriculture and therefore production which provides scope for decentralized initiative; but what is needed for this transformation is not only decentralized production, initiative or direction, but change in small owners' force of habit, concentration on personal gain and complete disregard of the interests of the community. Peasant proprietors and small artisans have many admirable qualities which need to be fostered and preserved, but the capacity to see the 'contradiction between individual ownership and socialized production' is not one of them. They are the most tenacious property-minded producers and are as a rule lacking completely in understanding of the wider aspects of production under modern conditions. They do not realize that small properties are, in the existing circumstances, incapable of giving security, economic independence, freedom from exploitation or decent living. Socialism is even

more necessary for them than for the industrial proletariat, but they have been and are so conditioned that they cannot see this point. This fact makes it all the more essential that if capitalism is not to be 'engendered' continuously, they should pool their property, skill and interests and undertake production on socialist lines. The urgency of the need, however, to repeat, does not remove the enormous difficulties in the way of this change. The latter is, it has been clearly realized in China, immediately called for and can be accomplished only by a constructive social endeavour on a vast scale. Future of socialism in China depends upon the successful completion of this task without having recourse to coercive processes on any significant scale.

The new economy of China expresses, promotes, realizes and defends the new faith in China; and it is professedly an economy not only sure of its position and prospects, but its builders, as those of the Soviet economy, are convinced that it is prototype of world economy of the future. Revolutions always are created and carried out on the assumption that they have discovered the final truth and the world is to be re-deemed through it. From the theoretical standpoint, the position is entirely wrong as a statement of the Marxian credo for according to the latter, once pre-history ends and history begins, there should and can be no limit to what human mind can discover, know, achieve and ascend to. In practice however every revolution is limited by the necessity of having to build anew on the debris of the past and assumes that it has a key or rather *the* key to the future, and once it is applied, regenerate man would emerge and follies of the past would never be repeated or hamper progress. The Chinese revolution is no exception to this rule, and as it has already achieved so much, it believes that nothing is beyond it and the revolutionary dreams will certainly come true. As it has never been and cannot be otherwise, it is no criticism of the Chinese revolutionaries that they do not know their limitations of even some of the less obvious implications of their own dialectics. The new economy has been launched, its outline is fairly clear, its results have brought great gains and considerable improvement in the condition of the people; it has given con-

fidence to the masses who were almost in a state of despair, thrown up leaders of great eminence and creative power and produced momentum which so far shows no signs of abating. The economy is being steered by the men who do not show the slightest disposition to rest on their laurels, have, in spite of their confidence and firm conviction, genuine humility and are willing to learn from experience and their own mistakes. The historic importance of the revolution in China and the economy, which it has brought into being and is building up with such speed and care for the fundamentals, provide a reasonable assurance that though it has still to go a long way, it will not come up against insurmountable difficulties—at least not through any fault of its men. The economy has just started on its own career, has only defined its tasks, taken a stock of its position and planned its future. It is in its interest, in the interest of Asia and in the larger interest of the world that it should realise its possibilities and make the six hundred millions, for whom it is designed, a force for real good, primarily through the full utilization of their human and material resources. The new economy of China is a great historical process, and it can well be hoped that the vistas which it has opened for itself will broaden out really into a new epoch for itself, and through parallel, though not identical, developments in other countries, also a new epoch for the world. The Chinese themselves are acting upon the assumption that the revolution, its achievements and experience are an event of world importance. This assumption is obviously true. It is essential to co-operate with the people of China, to give them an assurance that they can count upon the benevolent interest, and if possible active assistance of other peoples, in realising their destiny. The distorting effect of hostility to it, to the extent to which it does exist, has to be mitigated and, if possible, dispelled. Understanding of the new economy, would, it may be hoped, remove suspicion, give a real appreciation of its achievements and perspective and promote good will and international understanding.

# INDEX

- Abolition of feudalism and imperialism, 41
- Acceleration of, growth of population, in China, 381
- The West's reaction to, 381-382
- Acheson, Dean, 4, 24
- Afforestation, 104-105
- Agriculture, mechanization of, 91, 92, 111
- Agricultural Bank, credit advance by, 311
- Agricultural development programme of 1956-1967, 93
- All-China Departmental Stores, 243
- Ally, Rewi, 93
- Animal husbandry, 105, -108
- Anshan, 154, 162
- Anti-Malthusianism, a negation, 383
- Antimony, production of, 137
- A-political tendencies, 211
- Approach towards Handicrafts, 185
- Assets, Land Lords' distribution of, 74
- Austerity,
  - and feminine dress, 147
  - necessity of, 135
- Baker, D E, 378
- Bank de l'Indo-China, 20
- Bank of China, 21, 293
  - Foreign exchange bank, 263, 314-315
- Bank of Communications, 21
- Banking, 19
  - indigenous, 20
  - old, constituents, of '293
- Banks, Chinese, 21
- Belgium, 10
- Bernal, Prof., J. D., quoted, 385-388
- Birth marks of the old economy on the new economy, 38
- Birth rate, 25, 367-369
- Border Region,
  - peoples' government in, 33, 40
  - banking in, 36
- Brick and kiln co-operatives, Kalgan, 202
- Britain, 10, 16
- Budget appropriation for investment, 148
- Bureau of Industries, 174
- Bureaucratic Capitalism, 41
- Cadres, 34
  - experience acquired in border region and liberated areas, 34
- Canton, 10, 15, 41
- Capilarity, social, 219
- Capital Formation, 176
  - China's answer to the problem of, 176
  - and austerity, 180
  - and bureaucratic capital, 179
  - and cessation of economic drain, 178
  - and increase in productivity of labour, 180
  - and increasing proportion of contribution by state enterprise, 179
  - and land reforms, 179



- and mobilization of labour power, 180
- and new technique of banking, 180
- and social transformation, 181
- sources of, 178-181
- Capital investment in agriculture, 110-111
- Capitalism and small scale production, 410
- Capitalism and Socialism, antithetical, 182
- Carpet Producers' Co-operatives, Peking, 200-201
- Carr, Saunders, 23, 364
- Census of 1953, results of, 363
- Centralization,
  - of finance, 344
  - of receipts, 143
- Central Ministry of Local Industries, 174
- Centres of concentration of population, 378
- Chang Fu-ling, 203
- Chang Kai-shek, 4
- Chartered Bank of India, Australia and China, 20
  - China and lebensraum, 323
  - and her role in world affairs, 333
- China, as population powder keg, 370-373
- China Builds for Democracy*, 203
- Chinese revolution and its historical framework, 339
- Chinese share in pre-war foreign trade, 12
- Chinese students in Soviet Union, 358
- Chinese leaders' view on population, 364-365
- Chinese transformation and Marxism, 385-388
- Chinese Year Book*, 25
- Chinghai, 6, 106
- Chinkiang, 94
- Chou En-lai, 95, 198, 210, 221, 224, 346-380 views on extension of cultivation, 379
- Civil War, 5, 27
- Commandism, 46, 150
- Commanding heights, 52
- Commerce, recovery of, 240
- Commercialization, a catalytic agent, 8
- Communications, 10
  - disruption of, 240, 255
  - distorting effects of, 15
  - growth of, 260
  - migration of, 263
  - lack of, 239
  - rehabilitation of, 240
- Communication Bank, 313
  - and jointly operated enterprise, 313
- Communism,
  - dread of, 4
- Communist Party, 54
  - as masters of the State, 209
  - and trade unions, 236-237
  - a peasants' party, 203
  - composed of illumined and consecrated workers, 54
  - role in new economy, 54
- Commodity taxes, 21
- Concentration,
  - of industries, 151
- Consortium of powers, 5-6
- Constructive approach to population, 381
- Construction Bank, 314
- Constructive re-valuation of population trends, 373
- Cook, Robert, C. 264
  - quoted, 364, 373
- Co-operatives, 49
  - advanced, 98-97
  - administration of, 90
  - agricultural, 49
  - and communism, 205
  - benefits of, 85
  - consumers',

- growth of, 129
- suppression of, 129
- credit, 21, 49
- development of, 49
- elementary, 49
- farming, 86-89
  - voluntary,
- in border region, 35
- industrial in old economy, 18
- industrial, 28
  - of small venders, 242
- Producers', 85
  - growth of, 87
- productive enterprise of, 49
- role in planning, 109
- social gains of, 98-99
- supervision of, 109
- technical assistance to, 100
- Co-operative Federations, 117-119
  - income of, 119
- Co-operative Marketing and Supply Society, 123-125
  - Canton, Peking,
- Co-operative Union, Peking, 125, 128
  - Canton, Chingklang, Hopei,
  - Kwantung, Szchuan, 126
- Cost, planned, 149
- Costs, norms of, 149
- Craftsmen,
  - and central trading organization, 192
  - and development of production, 191
  - and labour federation of, 191
  - and marketing and supply societies, 191
  - and producers' co-operatives, 191
  - re-moulding of, 194
- Creative work and wages, 224
- Credit system, integration of with new economy, 323
- Cressy, P., 26, 364
- Cripps, Sir Stafford, 32
- Cross fertilization, opportunities of, 355
- Cultivation, implements of, 7
- Culture, new concept of, 233
- Currency, 19
  - basis of, 298
  - planned, 298
  - soundness of, 298
  - new immanent conception of, 299
  - and foreign reserve, 299
  - reform, 21
- Currency and Credit System, old as an instrument of a hybrid economic system still used by foreign interests for penetration and domination, 292
- Customs, 21
  - administration of, 23
  - yield of, 23
- Communist Party of China,
  - as a party of peasants, 400
  - attitude towards the people, 403
  - composition of, 400
  - democratization of, 405-408
  - future development of, 405-408
  - identification with the masses, 402
  - its authoritarianism, 400
  - its dominant position, 391-392
  - mainstay of new economy, 399
- Danger spots, 374
- Death rate, 367-369
  - British Guiana, 367-69
  - Chih, 367-369
  - Formosa, 367-369
  - Japan, 367-369
  - Porto Rico, 367-369
  - reduction of, 371-372
- Decentralization of Industries, 155

- Declining Importance,  
of customs and salt duties, 337
- Defence Expenditure, (1952-57), 177, 334-335  
in relative terms,  
in absolute terms,
- Deficiencies of food intake in China, 377
- Deficit Financing,  
non-existence in China, 177
- Deficit of food supply, 7
- Deforestation, 7
- Delivery Quotas, 252  
assessment of,
- Democracy at basic level, 395  
as way of life, 396  
and position of women, 398
- Democratic centralism, 394
- Democratic dictatorship, 238
- Department Stores, 242
- Deplomacy, gunboat, 11
- Development of  
Chinese economy, 11  
distortion of, 11
- Development of industries, 131  
retarded by foreign interests,
- De Castro, 378, 383
- Different ways of Soviet Aid, 356  
export of machinery,  
gearing production to special requirements of China,  
long term loans, long term trade agreement,  
supply of blue prints,  
supply of high level experts,
- Director,  
authority of, 150  
function of, 151
- Disguised unemployment, 411
- Disparities of incomes, 345
- Displacement of labour, 410
- Distribution of public expenditure, 334-335
- Distributive mechanism, 245
- Divergence of interests,  
between Soviet Union and China, 362
- Division of Functions  
between central and local authorities, 175
- Drastic action,  
against land lords, 43
- Dual control of  
trading organizations, 243
- Luistch Asiatische Bank, 20
- Economic function of finance, 227-329
- Economism, 212
- Economy, Chinese, foreign control of, 22
- Economy of Border Region,  
as a working model, 36
- Election by co-operatives, 118-119
- Embargo by U.S.A., 359
- Empiricism, 384
- Emulation, socialist, 214
- Expansion of currency during the war, 293
- Expansion of purchasing power, 248
- Expansion of revenue since 1952, 331
- Expenditure on Administration, 335
- Expenditure on Army, 22
- Exports, from China under old economy, 12  
to Eastern Europe, Germany, Japan, U.S.A., U.S.S.R.
- Equalitarianism, 222  
opposition to, 221, 346
- Equality of opportunity, development of, 161
- Fabulous rise of prices, 299
- Factory Committees,  
functions of, 230
- Farmers' Bank of China, 294
- Farming Co-operatives, 353

- Federation of Industries and Commerce,
  - function of 170
- Federation of Trade Unions, 223
  - growth of, 210
  - national council of, 229
  - income, sources of, 232
- Feudalism, as root cause of China's ills, 75
- Finance, 12
  - disorganization of, 32, 31
  - mechanism of enmeshing of Chinese economy, 12
- Finance Capital, 24
  - operations of,
- Fisher C. A., 381
  - quoted,
- Flour Mills, 138
- Foodgrains, export of, 254
- Family Planning Campaign, in China, 380
  - scope of, 380
  - significance of, 380
- Foreign Banks, 20
  - and control of foreign trade by, 294
  - and power politics, 295
  - and war lords, 295
  - decrease in transactions of, 295
  - deposits in, 295
  - foreign exchange, 294
  - sinister role of, 20
  - transfer of funds through, 295
- Foreign currencies,
  - circulation of, 292
- Foreign interests, 136
  - dominance of, 133
- Foreign loan, 21
  - secured by receipts of salt tax and custom, 21, 337
- Foreign Trade, 261
  - embargo on 261
  - nationalization of, 261
  - organization of, 261
  - significance of, 261
- France, 10, 16
- Free inflow of ideas from the West,
  - need for, 355
- Fruitful contacts with all countries, a necessary condition of genuine Sino-Soviet friendship, 356
- Functionaries of Trade Unions, 231
- Fushen, 162
- Gap between revenue and expenditure, 31
  - during World War II,
- Geography of China*, 26
- Geography of Hunger*, 378
- Geological Survey of China*, 357
- Germany, 10, 12
- Gold exchange standard, 292
- Gold,
  - not a basis for regulation of currency, 298-297
  - position of, 298-297
- Great Nation Chauvinism by U.S.S.R., 361
- Growth of expenditure since 1952, 334-335
- Growth of population,
  - attitude towards, 374-375
- Guilds, 15
  - crafts, 19
  - merchants, 19
- Handicrafts, 17
  - and auxiliary industries, 195, 200
  - and competition of mills, 199
  - and consumer goods, 186
  - and production, 196
  - and production of consumer goods, 199
  - and subsidiary occupation, 197
  - and the future, 199
  - bureau of, 194

- Co-operatives,
  - accelerated development of, 193
  - development of, in Peking, 193
  - organization of, 194
- craftsmen,
  - and intermediaries, 189
  - lack of organization of, 189
- different types of, 188
- economy and sweating, 17
- exploitation of, 195
- in ultimate terms, 185
- motives of socialist transformation of, 195
- of China, role of, 184
- reorganization of, 190
- subsidiary production by, 189
- Handicraft Co-operative Union, 204, 353
  - and economic democracy, 206
  - and new Milline, 206
  - comparative view, 206
  - function of, 353
- Handicraft policy, development of, 188
- Hankow, 41, 136, 162
- Karbin Railway, 360
- Heavy industries, development of, 133-134
- Highway to Lhasa, 259
- Heilungking, 108
- Holiday Homes, 232
- Honan, 101, 106, 154, 164, 168
- Hongkong and Shanghai, banking corporation of, 20
- Hopeh, 13, 154
- Hopei, 14, 101, 102, 154, 164
- Housing Development, standard of, 229
- Hsiang, unit of distribution of land, 174
- Huai river, 101
- Hu Shing, 181
- Immunity from risks of fluctuation of world prices, 359
- Imperialism, new, 41
- Imperialism and politics, 181
- Incomes, variations of, 222
- Increase of agricultural production, importance of, 47
- Increase of expenditure, 31
- Increase of revenue, analysis of, 332-334
- Increasing importance of taxation and profits of public enterprises, 333
- Increasing socialist purpose, 55
- India's Central Water and Power Commission, 181
- Individualistic farming, inadequacy of, 79
- Induscos, 33, 205
  - odyssey of an idea, 35
- Industries, 15
  - and technical personnel, 181
  - central control of, 174
  - foreign control of, Britain, France, Japan, U.S.A., 16
  - irrational distribution of, 13
  - local control of, 24
  - location of, 155
  - pre-war morbid state of, 133
- Industrialization,
  - and social transformation, 133
  - and heavy industries, 49
  - during World War I, 49
  - socialist, 49
  - targets of Five Year Plan, 145
- Industrial cadre, 158
  - allegiance to revolutionary purpose,
  - faith in social transformation,
  - spirit of dedication,
  - technical efficiency of,
- Industrial co-operatives and consumers' goods, 52
- Industrial economy, 130
  - feature of prewar, 136, 137
  - uneven development of, 136
  - defects of, 152

- Industrial output, pre-war, 136
- Industrial peace, 35, 36, 234
  - as a sanction,
  - significance of,
- Indoctrination, 211
- Inflation, 32
- Inflationary spiral, 28
- Inheritance Tax, 333
- Inland Transit duties, 21
- Inland waterways, 255
  - avenues of foreign penetra-  
tion, 262
  - importance of, 255
- Inner Mongolia, 28, 108, 154
- Institutes, economic and finan-  
cial, 160
- Intelligentsia, old remoulding  
of, 159
- Internal trade, retail and  
wholesale, 241
- International Trade of China in  
ancient times, 5
- Intrusion of foreign forces,  
result of, 3
- Investments, sources of, 76
  - and crafts, 51
  - and light industries, 50
  - and public enterprise, 132
  - and technique, 51
  - integrated approach towards,  
51
- Irrigation, 101-104
- Isolation of China, broken in  
1842, 3
- Japan, 5, 10, 12, 16, 27, 32, 33, 41
- Jawaharlal Nehru, 206
- Jehol, 107
- Jointly Operated Commercial  
Bank, 314
- Jointly Operated Stores, 242
- Joint Management of essential  
enterprises, 358
- Joint Stock Banks, subsidiary  
alliance with foreign banks,  
296
- Kalgan, 175
- Kansu, 30, 108, 256
- Keynsian economics, 355
- Kiangsu, growth of textile in-  
dustry in, 175
- Kirin, 108
- Kung, H. H., 329
- Kwanting reservoir, 102
- Kwantung, 14
- Kwiechoo, 30, 106
- Labour, 209
  - and the state, 209
  - essential, 72
  - expenditure on, 227
  - exploitation of, 210
  - insurance,  
content of, 226  
coverage of, 226  
financing of, 227
- Labour disputes, 233
  - arbitration of, 234
  - adjudication of, 234
- Labour industrial, relative sig-  
nificance and Marxian view,  
207
- Lai Je-yu, 209, 212, 213
- Lanchow, importance of as a  
commercial centre, 256
- Land, distribution of to the til-  
ler, 61, 74
- Landless labourers as new lead-  
ers, 45
  - and accusation meetings, 64,  
67
  - and democratic process, 63
  - and new era in Chinese his-  
tory, 59
- Landlords, abolition of, 42
  - assimilation of 96, 97
  - alienation of lands to, 8
  - assimilation of, 63
  - and re-instatement of, 42
  - and village despotism, 10
- Land reforms, 42
  - and approach to, 66

- and class struggle, 69
- and consent for major decisions, 67
- and democracy, 44
- and fragmentation of cultivation, 75
- and mass antipathies, 64
- and new legal framework, 64
- and new rural economy, 77
- and peasants' associations, 66
- and poor peasants and landless labourers, 60
- and social transformation, 65
- and training of cadres, 65
- and transfer of power, 44
- and vindictive action, 63
- as a potential obstacle to transformation, 77
- as a basis of unification, democratization and industrialization, 70
- pall of craven fear, 59
- distribution of land, 73
- fundamental importance of, 58-59
- supervision of, 72
- Land Tax, 21
  - assessment of, 22, 338
  - harassment through, 338
  - odiousness of, 338
  - payment in kind, 31
- Large mechanized farm in Manchuria, 360
  - Land Taxation in Border Region, 36
- Large-scale industry in Border Region, 36
- Latimore, Owen, 24
- Leaders of industry, 224
- Lenin, quoted, 112, 120, 410
- Liaoning, 14
- Liao Lu-yin, 80
- Liberated Areas, 34
- Li Fui-chun, 152, 157
- Light industries, 133, 145
  - and self-denial, 146
  - increase in production of, 146
  - investment in, 145
  - relative importance of, 145
- Loans, 24
  - as sources of income, 331
  - forced upon China, 24
- Long March, 33
- Lui Shao-chi, 75
- Lysenko's genetic theories, 355
- Machines, production of, 144
- Making of Modern China, 24
- Malthusianism, inadequacy of, 331
- Malthusian controversy, need for transcending limitations of, 375
- Malthusian interpretation of Chinese History, 363
- Malthusian view, rejection of, 364
- Management, standard of, 159
  - New archetype in, 152
  - norms of, 166
  - professional, 164
- Manchuria, 61, 154
  - landed estates in, 9
- Manchus, fall of, 4, 16
- Mao Tse-tung, 36, 39, 83, 92, 103, 145, 349, 350, 379, 390, 407
  - Selected works, of, 40
- Marketable Surplus acquisition of, 251
- Marketing and Supply Societies, 245
- Marxian view on population, 365
- Marxism, as accident but not substance of Chinese revolution, 336-337
- Marxist Faith, as bond between Soviet Union and China, 349
- Marx, Karl, 38
- Mass Drives,
  - and indoctrination, 56
  - limitation of, 55

- significance of, 55  
 Mass organizations and trade unions, 53  
 Maternity benefits, 227  
 Mechanization of agriculture, 47 and demographic pressure, 379  
 Medical Appliances Co-operative, Shanghai, 203  
 Medical treatment, 226  
 Men and machines, 144, 185  
 Middle Peasants, majority, 70, 80  
 Milbank Memorial Fund, 387-369  
 Millets, relative importance of, 253  
 Mineral Resources of China, 357  
 Mines and Manual Labour, 198  
 Ministry of Commerce, 243  
 Ministry of Finance, 327/29 allocation of funds by, and balance between investment and consumption functions of,  
 Modern industry, growth of, 14  
 Mogi, Sobel quoted, 19  
 Money economy, 8 effect on peasants, growth of,  
 Movement of goods, cost of, II  
 Moving Spirit of Border Region, 37  
 Mukden, 136  
 Mutual Aid Teams, 49 as embryo of socialism, 84  
 National Institute of Co-operative Training, 121, 122  
 National Minorities, 107 as beneficiaries and promoters of social revolution, 290 creative co-existence with, 289 equality of, 289 importance of, 289 potential resources of, 289  
 National Union of Trade Unions, 230  
 Needham, Joseph, 33  
 Nehru, Jawahar Lal, 32  
 New China, authenticity of, 349-350  
 New Currency, smooth introduction of, 300  
 New Democracy, 390  
 New Economy, an integrated view, 38 background of, 6 viable working system, 384 and communist party, 53  
 New Demographic disequilibrium, 373  
 New economy and democracy, 390-397  
 New Health Services, 371-372  
 New patterns of rural economy and Soviet experience, 353  
 New Samurai, 55  
 New Vistas, broadening of, 413  
 Note Issue, centralization of, 292  
 Ryme Wales, 32, 206  
 October Revolution, importance of, 349-350  
 Old age pension, 226  
 Old agrarian economy, 60-61  
 Open Door, 24  
 Old technique and human interest, 187  
 Opportunism, 384  
 Organization of State-joint enterprise, 173  
 Over-population. danger of, 365  
 Panikar K. M., 15  
 Paper Plan, for alleviation, 10  
 Parity Unit, values of, 318-19  
 Parliamentary democracy, its limitations, 393  
 Participation of the masses in co-operatives, 113  
 Paotow, 154



- Patil R. K., 88
- Pavlovian conditioned reflexes 355
- Peasants and communists, 35,  
democratic estimation and  
decision, 35, 73
- Peasants and land reform, 62  
means of organization of, 82
- Peasant and Socialism, 411
- Peasant Associations, organs of  
land reform, 70
- Peasant economy and socialism,  
63
- Peasant proprietorship,  
as a means and not end of  
social transformation, 75
- Peking, 175
- Peoples' Bank, 117, 118, 148  
and peasants, 310  
analysis of business of, 306-  
307  
as agency for settling inter-  
national accounts, 308  
as clearing house of ideas,  
304  
centralization of cash balan-  
ces, 301  
combination of Central Bank  
and Commercial Bank, 301  
conformity between cash and  
actual costs enforced by, 304  
credit advances limited by  
assessed needs, 302  
credit advance to producers'  
co-operatives, 305  
credit allotments according to  
social priorities, 303  
deposits, costless, 305  
deposits in, 301  
distinctive features of, 301-  
307  
enforces adherence to planned  
utilization of credit, 301  
ensures equilibrium between  
currency and commodity cir-  
culation, 306
- exercise of vigilant watch  
over operations of the Plan,  
304
- functions of, 301
- instrument of state policy, 301
- interest rate of, 301
- interest structure of and its  
underlying purpose, 309-10
- internal reserves not needed,  
302
- no credit granted in inter-  
firm transactions, 303
- planned allotments of credit,  
302
- rural credit advance, 310
- safeguard against over-issue  
of currency, 302
- training of employees, 308
- Peoples' Republic of China, 27
- Peoples' University, 160
- Per capita production, targets  
of, 377
- Personal Taxation and New  
Economy, 336-337
- Perspective of Chinese Eco-  
nomy, 39
- Physical control of agricultural  
surpluses, 323
- Plan, enforcement of, by Peo-  
ples' Bank, 148
- Pneumatic Tyre Company, 164  
director of, 165
- Political Consciousness of the  
people, 57
- Population, 25  
and social minimum, 378  
and time factor, 376  
Chinese before 1949, 25  
density of, 25  
estimates of, 25  
one sixth supported by handi-  
crafts, 184  
rate of growth of, 366, 368,  
370  
uneven distribution of, 25

- Population Pressure and industrialization, 380
- Positive Population policy, 383, need for, 376
- Potential danger of Health programme in China, 370-373
- Potential extension of cultivation in China, 378
- Potential strength of China, 361
- Power, taming of, 394
- Pre-revolutionary Finance, 329-330
- Pressure on Demand, 249
- Prices,
  - and market economy, 291
  - as expression but not determinant of social decisions, 292
  - equalization of, 149
  - hegemony of, 291
  - indices of, 317
  - market, 149
  - planned, 291
  - planned, factory, 149
  - retail, uniformity of, 242
  - simplification of, 300
  - skyrocketing of, 291
- Prices of consumer goods, 320
- Prices in Tientsin, Hankow, Shanghai, Canton, Sian, Mukden, 321
- Price Mechanism, autonomous, incompatible with planned economy, 316 role of, 82
- Price Parity, 82
- Prices in Planned Economy, 316
- Price Policy and Agriculture, 82
- Price Stabilization, success in, 316
- Principles of Economic Policy, 39
- Principle of wage payment, 221
- Private enterprises, 132
  - number of, 173
  - transformation of, 173
- Private Sector, 168, 169
  - profits of, 169
  - self-regulation of, 170, 171
  - state aid to, 169
  - taxation of, 169
- Private Traders, as distributive agents, 242
- Problem of China, 24
- Problem of Far East, 19
- Process of recovery, creative aspects of, 38
- Procurement of essential commodities, 248
- Production, 29
  - expansion of, in World War II, 29
  - index of, in 1949, 30
  - importance of, 213
  - agricultural, increase of targets of, 81, 82
  - of rolling stock, 258
- Productivity, increase of, 214
- Products of essential commodities, increase of, 249
- Profit Tax, 333
- Protective Food, importance of, 377
- Provincial Taxation, 333-334
- Public Finance, 324
  - as instrument of social revolution, 326
  - broadening of purposes of, 325
  - qualitative changes of, 334
- Public Sector, 167
  - growing importance of,
- Public Trading,
  - different levels of, 244
  - extension of, 242
  - growth of, 247
- Purpose of Soviet Aid, 357
- Railways, 103
  - concession, 103
  - development of, 256
  - freights and fare schedules, 257
  - foreign control of, 255

- goods traffic, 257
- haphazard construction of, 20
- new lines of, 256
- passenger traffic, 257
- re-organization of, 257
- training of staff of, 253
- Range of income variations, 336-337
- Rao, K. L., 181
- Rate of Infant Mortality, 387-369
- Rationing, 147
  - and development programme, 250
  - and re-actions to, 250
  - need for, 248
  - norms of, 253
  - policy of, 253
  - reasons for introduction of, 249
- Realism in action, 112
- Rear, significance of administration in, 28
- Recruitment of trading personnel, 244
- Redman, H. Vere, quoted, 19
- Re-examination of Population Policy,
  - by Australia, Canada, Latin America, U.S.A.
  - need for, 373
- Rehabilitation of Chinese Economy, 357
- Relative importance of various sources of revenues, 331
- Relative prices of staple grains and cotton, tobacco and peanuts, 321
- Release of new energy and creative incentive of the masses, 42
- Re-organization of Education, 357
- Re-organization of Finance, 324
- Re-payment of Debt, to Soviet Union through re-valuation of Soviet contributions, 355
- Report of the Indian Delegation on Agrarian Co-operatives*, 89
- Report of the Indian Delegation on Agricultural Technique and Planning*, 95
- Research in Atomic Energy, 358
- Revenue Surpluses 1952-55, 331
- Revolution, Chinese, 1
  - and concentration of land ownership, 9
  - and world history, 2
  - from below, 44
  - impact of, 2
  - Marxian basis of, 19
- Revolutionary Action and enthusiasm, 121
- Revolutionary cadres, as source of technical personnel, 163
  - constitution of, 163
  - driving power of, 44
- Rich Peasants, 42, 74, 79
  - assimilation of, 96-97
  - neutralization of, 70
- Road Construction, importance of, 259
- Roubles, units of account, 297
- Rural Classes, principles of class differentiation, 71
- Rural Economy, new patterns of, 72-112
- Russel, Bertrand, quoted, 24, 26
- Sain Kanwar, 102, 180
- Salt, 333
- Salt Tax, 21
- Scales of public salaries, 344
- Scheme of flood control and water conservation, 357
- Self criticism, 150
- Self denial, technique of, 136
- Self rectification campaign, 406, 407

- Shanghai, 10, 136, 137, 162, 174, 175  
 disproportionate importance of, 15
- Shansi, 100, 101, 154
- Shantung, 14
- Share cropping, 61  
 prevalence of, 9
- Shortage of food, 11
- Sikang, 6, 106
- Silver standard, abandonment of, 19, 20
- Sinkiang, 6, 106, 108, 154, 258
- Sino-Japanese War, 11
- Sino-Soviet Alliance,  
 and creative peace, 347  
 historical necessity, 347
- Sino-Soviet Co-operation, an article of faith, 350
- Sino-Soviet Friendship, 356
- Sino-Soviet Relation, before 1949, 347
- Snow, Edgar, 32
- Social dividend, increasing importance of, 220
- Social incentives, response to, 162
- Social Insurance, 225
- Social revolution, 158  
 faith in,  
 necessity of,
- Social transformation and trading co-operatives, 129-130
- Socialism, as guiding principle of economic efforts, 40
- Socialist construction, theory and art of Chinese contribution to, 354
- Socialist economy, full development of*, 39
- Socialist transformation, through commerce, 241  
 of trade, 247
- Soil reclamation, 108, 378
- Soviet Concepts, and methods of development, bearing of, 352-358
- Soviet Financial Assistance, crucial importance of, 359-360
- Soviet Ideas, 354  
 influence of, 354  
 objective assessment of, 354
- Soviet Union, 52  
 as model for China, 347  
 mistakes of, 408
- Stability of Prices, 240
- Stabilization of Prices, 315
- Standard of Cultivation, 7
- Standard of living, 135  
 improvement of, 147
- State Capitalism, 168
- State farms, 101
- State retail stores, 129
- State Trading corporations, 243, 244, 305, 307  
 and private industry, 244-245
- State Trading Organizations, 241, 246, 248
- Stillwell, General, 11
- Strikes, 236
- Study of Chinese population, 25  
 death rate, 25
- Sun Yat-sen, 4, 26
- Survival rate, 367-369
- Szechuan, 30, 101, 102
- Taming of the Yellow and Yangtze Rivers, 357
- Tangko Harbour, deputy head of, 168
- Tariff Autonomy, restrictions on, 23
- Tariffs, as vestiges of the past, 337
- Tawney, R. H. 14, 15, 16, 26, 53, 59, 220, 239, 240, 255 quoted 363-364
- Tax on agriculture, and land reform, 339  
 basis of assessment, 342  
 distribution of receipts on surcharge on, 342

- incidence of, 340-342
- principles of, 342
- Taxation, 118
- Taxation of Peasants, 333
- Taxation of Private sector, 333
- Tayeb, 154
- Technical Personnel, 144
  - four sources of, 156-163
- Technique, high level of, 144
- Technological unemployment, 187
- Teng Cheh, 195
- Teng Ti-hui, 84
- Terms of exchange, 107
- Textile industry, 14
- Textile Mill, director of, 166
- Tibet, 6, 106, 259
- Tienstin, 41, 138, 137, 162, 168, 174
- Trade, dominant interest of Western Powers, 11
- Trade Union, 17
- Trade Unions, 211
  - and centralism, 238
  - constitution of, 229
  - function of
- Trade Union Congress, 229
- Trade with Soviet Union, growth of, 359-360
- Trading co-operatives, 115, 118, 241, 242
  - amalgamation of, 116
  - growth and operation of, 115
  - planned purchase by, 116
  - retail sales by, 116
- Training of Technical Personnel, 358
- Transfer of Power, 76
- Transformation of independent producers, 419
- Treaty of Nanking, 23
- Tungsten, production of, 137
- Twentieth Congress of the Communist Party of U.S.S.R., 361, 405
- Unemployment, rural, 80, 93-96, 198, 199, 210
- United States Relations with China, 24
- Universities and technical personnel, 159
- U.S.A., 12, 16
  - aid during 1945-1949, 330
  - role of, 25
- U.S.S.R., 12
- Vital Elan of the New Life, 69,
- Voice of rural masses, 42
- Wages, agricultural, 224
  - increase of, 224
  - real rise of, 226
- Wage differentials, 222
- Wage policy, 220
- Wage reform, principle of, 225
- Wage structure, 220
  - principle of, in Soviet Union, 223
  - revision of, 220
- Wage units, values of, 318-319
- Warehousing Depots, 241
- Warlords, 10
- Washington Conference, 23
- Western Domination, heyday of, 11
- Western Powers, 41
- Winfield, Dr., 364
  - quoted, 371
- Women's Role in New Economy, 45
- Workers, orientation, 212
  - social consciousness of, 213
- Workers,
  - contribution, evaluation of, 216
  - discrimination in favour of, 219
  - efficiency, recognition of, 216, 217
  - low productivity of, 215

- participation by, 216
- pre-revolutionary wages, 220
- promotion to managerial position, 217
- representation on boards, 216
- training of, for higher positions, 217
- Workers' clubs, 232
- Workers' co-operation, 211
- Working class as a leading force, 208
- Working Peasants, importance of, 207
- World Outlook of Chinese Revolution, 412
- Yellow River, 101
- Yokohama Special Bank, 20
- Yumen, 256
- Yunan, 106, 108
- Zonal Japanese Currencies, 293